



USAID Ukraine Agro-Monopolies Privatization Project
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Final Report

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RE: *Ukraine Agro-Monopolies Privatization Project*
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I. Executive Summary

After eighteen months, the privatization of Ukraine's 543 grain storage, processing and marketing enterprises may be judged a qualified success. Although the State Property Fund (SPF) will not meet the ambitious target set by the International Monetary Fund (IMF) – 442 grain elevators privatized to 70% by June 30, 1999 – the Government of Ukraine has made significant progress in creating private ownership of the grain storage and processing industry. Indeed, considering the current state of Ukrainian agriculture – no market for agricultural land, a non-payment crisis, continuing subsidies to inefficient farms – the elevator privatization program must be considered one of the successes of Ukrainian agricultural reform.

Whereas grain elevator privatization was strictly forbidden by law three years ago, today 98% (433) of the elevators subject to privatization have begun the privatization process and 65% (351) are already privatized. In Odessa oblast, perhaps the most important region for the grain market considering its ports and access to the Black Sea, twenty-six grain elevators have been privatized and some have already embarked on programs of market research, new product development and enterprise restructuring.

Within the last four months, portfolio and strategic investors from Ukraine and abroad have expressed renewed interest in the grain storage and processing industry, particularly in those enterprises located along the Dniepr River and on the Black Sea. Indeed, shares in grain elevators are now among the most popular securities on the stock exchange. From March to May 1999, the State Property Fund sold 81 share packages in grain elevators and in June the SPF offered another 79 share packages.

Has privatization created real change? While it may be years before this question can be adequately answered, the following observations suggest that positive change is indeed taking place.

First, there is now a secondary market and active trading of elevator shares that were distributed free of charge to grain producers (i.e., collective farms). This process, while it lacks transparency and is

unregulated, nevertheless enables private investors to accumulate a majority share package, since 51% of the shares of elevators are given free to producers. Private investors generally hire financial intermediaries to acquire these shares and consolidate them in a single package. Consolidation of “free transfer” shares is most active in Odessa, Mykolaev, and Poltava.

Second, elevator directors have become more independent, to the point where even those nominally under the control of Khliv Ukrainy (KU) now openly defy KU’s orders on storage, grading, pricing and transportation. This independence may be attributed to the fact that KU does not always pay its elevators for the grain they store, process and market. In addition, elevators nominally under the single, centralized control of KU such as the Odessa and Kherson port elevators are now themselves fierce competitors, which has positive long-term implications for the grain market.

Third, outside investors, especially grain traders and input suppliers, have become more experienced and savvy. Investors now look at a grain elevator as a link in a larger chain of business activities. For example, in Odessa, one investor with controlling interest in an elevator plans to build a fuel distribution network, a sunflower oil processing plant and a harvesting operation stocked with combines from John Deere and Case. The Kherson port elevator likewise plans to expand its services to include oil seed processing and chicken feed production.

Fourth, private investors have begun looking at hybrid investment opportunities, not just greenfield operations like Kyiv-Atlantic Ukraine. A hybrid investment (i.e., building on an existing enterprise) permits investors to take advantage of the location, land, and loading assets of a privatized elevator, while bringing in modern drying and milling equipment. Interest in hybrid investments is highest along the Dniپر River and the Black Sea coast (e.g., Poltava, Odessa, Zaporizhe, Kherson, and Mykolaev oblasts).

Finally, privatized elevators have begun to lease property and/or land to neighboring collective farms, agricultural cooperatives, private farms and/or inter-farm property complexes. When private farmers become owners of storage and processing facilities, the farms benefit from cheaper, more responsive services and the elevators benefit from responsible management, a stable client base and a steady supply of grain.

It is too early to say, however, whether privatization has created real change at the elevators. Some Western grain traders have complained that the newly privatized elevators are even worse than State-owned elevators (i.e., higher prices, arbitrary rules, lax quality control). Agricultural economists note that without privatization of the railroads, ports and Khliv Ukrainy (KU) itself, the impact of elevator privatization on the grain market as a whole will remain limited. Potential investors point to the fact that the State has retained a “blocking” share package of 25%+1 share in more than 300 grain elevators and argue that fundamental change will not happen until private investors are free to make critical management decisions without interference from the State.

While these are all legitimate concerns, it is important to note that the entire process began just eighteen months ago in November 1997, with Cabinet of Ministers (CabMin) Resolution #1218, “On the Acceleration of the Privatization of Grain Storage and Grain Processing Enterprises,” and more time will be needed to effect long-lasting, structural and behavioral change.¹ The Government of Ukraine was slow to begin the privatization of the grain elevators, perhaps thinking that the State needed to own more than 500 grain elevators to ensure food security, or perhaps in the hope that these agricultural “crown jewels” could be sold later for cash to strategic investors. As a result, while thousands of State-owned companies

¹ . Cabinet of Ministers Resolution #1000 (August 22, 1996) officially created “Khliv Ukrainy” and approved its charter, but did not authorize the privatization of the grain elevators. CabMin Resolution #1498 (September 22, 1998) amended the list of elevators to be privatized according to CabMin Resolution #1218, but did not change the meaning of Resolution #1218 in any significant way.

in other sectors went through the various stages of privatization, the grain elevators stayed still, rooted in an obsolete system of central command and control. Breaking away from that system has not been easy.

Complex privatization procedures. Adding to the difficulty, the procedures adopted by the Government to privatize the grain elevators have not facilitated radical, structural change. For example, the 1996 Law on Special Characteristics of Agricultural Privatization greatly slowed the privatization of grain elevators and seriously diluted ownership with its requirement that 51% of the shares of each elevator be transferred free of charge to commodity suppliers (i.e., farmers). In practice, this means that the shares of one grain elevator may be distributed to more than 400 farms and more than 8,000 individuals. The State Property Fund now has the onerous responsibility of concluding contracts with each new shareholder created through this “free transfer” procedure. The 1996 Law further stipulated that preferential share sales to employees of non-farm enterprises of the agro-industrial complex (a category to which the grain elevators belong) must last *no less than* one year. Fortunately, this stipulation was amended in 1998 and the time period for conducting preferential sales was reduced to six months.

In late 1997, the Government finally responded to repeated requests from the international donor and private investor communities to reorganize and privatize the grain storage industry. Cabinet of Ministers Resolution #1218 (November 5, 1997) is a landmark in Ukrainian agricultural reform. This Resolution authorized the privatization of more than four hundred grain elevators, listed them by name and by oblast, and limited the newly-created State holding company “Bread of Ukraine” (“Khlib Ukrainy”) to ownership of no more than 100 elevators. This last point was included to satisfy agreements reached under the Gore-Kuchma Commission on Trade and Investment in 1996 and has been contentious ever since. The Resolution also declared that seventeen grain elevators (“grain bases”) were sufficient to guarantee grain supply in case of a natural disaster or war.

Key questions. As consultants to the State Property Fund under the USAID-funded Mass Privatization Project, PricewaterhouseCoopers (then Price Waterhouse) consultants helped to draft Resolution #1218 and negotiate the terms under which certain grain elevators would be privatized while others would be retained by Khlib Ukrainy. It immediately became clear that successful grain elevator privatization would require resolution of several implementation issues. These questions arose time and again throughout the Project:

1. **What is meant by “privatization”?** Is 70% private ownership sufficient, or is a private elevator one with no State shares at all? And if the State insists on retaining a 25%+1 shareholding, who should manage that share package on behalf of the Government?
2. **What role should Khlib Ukrainy play in the grain market?** As the legal successor to the former Ministry for Grain Storage and Supply, should KU be limited to establishing grain standards, issuing grain elevator certificates, feeding soldiers and prisoners, designing contingency plans and maintaining the grain bases? Or should it deliver farm inputs, collect payment from farms, and operate as a grain trader and elevator operator like multinational corporations Cargill and Toepfer?
3. **How can the State Property Fund satisfy donor conditions while keeping the parliament at bay?** Clearly, not all of the grain elevators are attractive or even viable enterprises and most of those that are attractive were transferred to Khlib Ukrainy. How could the SPF sell more than 400 grain elevators to satisfy the International Monetary Fund (IMF) without giving the Verkhovna Rada grounds for halting the entire program?

From a project management perspective, it has been extremely helpful to have the support of the major donor organizations in setting privatization targets and deadlines. *Indeed, the single most important recommendation to come from this report may be that economic reform targets be concrete, measurable, agreed in writing with Government officials and linked directly to donor funding.* It is doubtful that the Government of Ukraine would have embarked on such an aggressive schedule for the privatization of the grain elevators had not the IMF in particular insisted on it.

Goals and objectives. The USAID-funded Agro-Monopolies Privatization Project began officially on December 21, 1998, although PricewaterhouseCoopers (then Price Waterhouse) had been engaged in agro-industrial privatization since 1995 under the Mass Privatization Project. The goal of the new Project was to help privatize Ukraine's grain elevators and demonopolize AIC parastatal organizations that threaten the development of a private agricultural market in Ukraine. In particular, PricewaterhouseCoopers identified a need to privatize the grain elevators and promote the demonopolization of Khlib Ukrainy, Ukragromashinvest, and several other state monopolies and holding companies involved in the production and distribution of fertilizer, fuels, equipment, and other farm inputs. To those ends, the Project provided a balanced combination of enterprise consulting, policy advice, training seminars, and objective data analysis to the State Property Fund, Khlib Ukrainy, Antimonopoly Committee, Ministry of the Agro-Industrial Complex and dozens of grain storage enterprises.

The elevators have been privatized according to the principles of the Government's mass privatization program, the objective of which was to effect a rapid change in ownership from the State to the private sector – not to attract foreign investment, install new management or restructure the enterprise. Privatization was seen as a laudable goal in and of itself because of the conviction that private owners operating in a competitive environment would necessarily be more concerned with efficiency, speed, and quality in providing grain storage and processing services. Some Western analysts saw it as the only way out of a serious crisis in the grain market, where annual losses from State-managed storage and transportation exceeded even grain exports. Agricultural economist Ludwig Striewe estimates that Ukraine annually loses roughly one percent of its total gross domestic product because of inefficiencies in grain harvest, storage and transport.²

Recommendations. In order to change that startling fact, the Government's elevator privatization program must be continued and supported to its logical conclusion. Privatization changes the legal status of an enterprise. It does not necessarily change the way that management considers and makes decisions; or the way that a newly private company interacts with its suppliers and customers; or the legacy Soviet system in which grain enterprises operate in Ukraine. PricewaterhouseCoopers was hired to help design, launch and guide the process – but the Government of Ukraine and the grain elevator directors themselves must make the changes necessary to reap the rewards of full private ownership in a market economy.

That assumes, first and foremost, that the State Property Fund will sell the State share of 25% + 1 in more than 300 grain elevators, thus freeing them from the control and direction of the State. It assumes that the Government of Ukraine will abandon its dependence on Khlib Ukrainy as the state agent for the purchase of grain and distribution of inputs and will work instead through open market mechanisms. It assumes that Khlib Ukrainy itself will be transformed into a private grain company, perhaps through the sale of shares via international tender to a strategic investor. And it assumes that the enterprises themselves will commit to restructuring, right-sizing, accounting reform, marketing, and strategic change.

Fortunately, opportunities – and therefore entrepreneurs – abound in the grain market. Private grain enterprises in L'viv, Odessa and Poltava, for example, have begun to fundamentally alter the way they do business. They have leased land from private farms, negotiated with foreign investors to upgrade storage, drying and milling facilities, and obtained credit to expand services and develop new, value-added products (baby food, breakfast cereals, pasta). The donor community can help maintain the momentum of change by providing these newly private agri-businesses with the necessary management skills, training and technical assistance to take advantage of their freedom from the State.

This report contains an overview and summary of the technical assistance and training provided to Ukrainian counterparts from November 1998 – June 1999. It is organized into five major sections, each of which highlights the role that PricewaterhouseCoopers privatization consultants have played in:

² Ludwig Striewe, "Grain and Oilseed Marketing in Ukraine" (September 1998: German Advisory Group on Economic Reform in Ukraine and the Center for Privatization and Economic Reform in Agriculture).

1. Providing policy and strategy consulting,
2. Shaping and implementing the new USAID regional agriculture development program,
3. Delivering privatization and corporate governance seminars throughout Ukraine,
4. Maintaining the State Property Fund's official website, and
5. Keeping both the international donor community and the Government of Ukraine informed with objective data analysis and statistical reporting.

II. Policy and Strategy Consulting

A. State Property Fund. The SPF was the Project's primary counterpart and official recipient of assistance. Privatization consulting delivered to the State Property Fund included organizing a conference for investors in the grain market, designing new methodologies to accelerate free transfer, and recommending share sales strategies to attract foreign investors and meet IMF privatization targets.

Investment in Grain Elevators. On December 8, 1998, PricewaterhouseCoopers organized an investors conference at the State Property Fund. More than thirty people participated, including representatives from John Deere, Norsk-Hydro, Louis Dreyfus, and Ukragrobusiness. Deputy SPF Head Vadim Vasiliev chaired the conference and seemed genuinely interested in hearing the comments and complaints of investors. He repeatedly told participants that he wanted the SPF to do a "better job" in 1999 and he asked everyone for their suggestions on how to accelerate the privatization of grain elevators.

The central idea to emerge from the conference was that strategic investors will demand a controlling share package of 75% + one share before they contribute any serious money. Investors want control of the company for their money -- and transferring 51% to suppliers does not help to consolidate controlling share packages in the hands of an investor.

Vasiliev made the point that the "rules of the game" (regarding share distribution) have long been established and are well known to everyone. While he stated that it would be virtually impossible for political reasons to change the Law, Vasiliev did say that he would be willing to support a change in the SPF's share sales strategy so that larger, more attractive share packages could be offered for sale (for cash) to strategic investors. Vasiliev proposed combining the state share package (25% + one share) with a privately-held share package so that investors could pick up 51% or more at one fell swoop.

Grigory Omelyanenko, then head of Khlib Ukrainy, said that KU is in favor of the full privatization of all but 100 grain elevators. At a separate meeting with him after the conference, however, he seemed to retract this statement and confirmed his desire to have the Cabinet of Ministers transfer the state share package (25% + one share) in 190 elevators to Khlib Ukrainy, which would "manage" the Government's share package. In short, it is apparent that KU still wants a management interest in more than 100 elevators. Incidentally, Omelyanenko also mentioned that KU is in the process of privatization and is looking for an international joint venture partner to work with it in the grain trade. No investors appeared eager to invest in Khlib Ukrainy itself.

Omelyanenko complained at the conference that KU was unfairly being labeled as a monopolist. He cited a recent decision by the Anti-Monopoly Committee declaring that KU is no longer a monopolist in the "storage and processing of state grain." Omelyanenko also claimed that many major investors (including Cargill) had approached Khlib Ukrainy to negotiate deals with some of the most attractive elevators in the country (e.g., Odesa port elevator, Mariupol port elevator, Kirovograd elevator, etc). He said that 27 deals were pending with foreign investors. When asked whether or not KU would play the same role next year as a supplier, distributor and creditor for the large collective farms, Omelyanenko said, "Absolutely not. It's a thankless task and we're not getting anything out of it except a big headache." Unfortunately, subsequent events have demonstrated otherwise.

Peter Sochan of Citizens Network for Foreign Affairs summarized many of the problems faced by investors in the AIC sector. In addition to the difficulty in obtaining a controlling share package, other problems faced by investors include the following:

- confusing and unclear accounting procedures and standards;
- changing terms of an investment after the deal has been signed (i.e., an investor will find out too late that he has bought company debt, not assets);
- continuing pressure on privatized enterprises from local administration officials to "behave" and function as state-owned enterprises;
- lack of transparency in the privatization process; and
- inability to buy the land underneath the enterprises.

Eyewitness account. Other experienced Western analysts have identified a litany of problems specific to the grain industry. In December 1998, a British agribusiness consultant with several years of experience in Ukraine offered the following comments on the trials and tribulations facing investors interested in Ukraine's grain elevators:

I have been involved on the periphery of the process of grain elevator privatisation in Ukraine and I have found that despite the pressure being brought to bear by politicians, potential and actual investors are being deterred by the corruption, cheating and incompetence of various parties involved in the management - or more accurately - mismanagement of the elevator system.

One foreign investor purchased a block of shares in 4 elevators. Despite previous experience in Ukraine, he quite naively bought 20% of the shares in each facility thinking that this would give him some preferential standing. However, when he sent corn and sunflower seeds grown on land he had leased, he found that he was cheated by the elevator staff, either deliberately or by their incompetence. The field corn sent to the elevator has been assessed by an international inspection house as good US #2 yellow corn. It almost made US #1 grade. However it needed drying before shipping and storage so it was sent to the elevator.

The sample returned from the elevator was burned, it contained a high proportion of broken grains and it also contained more than 15% of "other grains". Quite obviously, the drier had been operated at too high a temperature and the grain had been mixed with someone else's crop. It was also decreased in weight by an amount significantly more than normal drying losses.

Sunseeds being discharged from the same elevator were found by the same inspection agency to be from last year's crop, so the elevator had switched consignments, trading fresh sunseeds for some old stock held over from last year.

A consortium of international investors tried to buy a share package in the Varvorovsky elevator at Mikolaev. Their bid was initially accepted. Then a few days later, their broker returned their money but was "unable to provide any explanation". Then Aval bank mysteriously obtained the shares, and some very shady characters visited the elevator director at home to tell him that if the foreign bid had been accepted, the new investors' plans included replacing all of the staff with new hires. They persuaded/forced him not to collaborate with any other bidders. It seems that the privatisation process is nowhere near as transparent or straightforward as it is claimed to be. In this case, with even the small share package involved, the investors lost over \$50,000 by changing their money into hryvna and then back again and making several visits to the elevator.

Port and railroad staff regularly divert and switch railcars. A consignment of 10 railcars may leave with a certain grade of product, but there is every likelihood that if 10 arrive, 3 or 4 will contain another (usually lower) grade of product. Often 10 will be dispatched and 6 will arrive, the other 4 will be "lost" in transit. If the missing railcars ever do arrive, they will usually have missed the shipping date, thus causing the trader to pay demurrage charges or even missing the boat altogether. One small grain trading company told me they are so disillusioned with everyone involved cheating on everyone else with the trading company picking up the final bill that they have decided to leave Ukraine off their list of countries to trade with.

Do these people not realise that the grain trading world is very small and underhand dealing like this will convince any potential investors that they would be much more prudent to place their investment funds elsewhere?

Selling the State share. In 1996, the Government of Ukraine (GOU) made a commitment to the Gore-Kuchma Commission to fully privatize all but 100 of the country's 543 grain elevators. PricewaterhouseCoopers consultants have consistently urged the State Property Fund to follow this course of action and have suggested various ways to sell the State share without drawing the ire of a leftist parliament. To date, just 46 grain elevators are privatized to 100% while the Government retains a stake of 25% + 1 share in 330 others. At one point the Government appeared willing to part with this shareholding – for a price. In 1998, the State Property Fund held a series of non-commercial tenders to sell blocking share packages of 25% in dozens of grain elevators. Out of fifty-five tenders conducted, just seven were successful, mainly because the asking price was often six or seven times higher than nominal value once all investment obligations were taken into account. Because of the disappointing tender results, the Government has subsequently argued that private, strategic investors are simply not willing to invest in grain elevators and is therefore reluctant to offer the State shareholding for sale.

Recently, strategic investors have expressed a renewed interest in acquiring the State's share in grain elevators along the Dniepr River (the "Ukrainian Mississippi") and on the Black Sea coast. It is not true that there are no serious, private (Ukrainian or foreign) investors willing to buy shares in the grain elevators. In fact, as the "free transfer" and preferential sale processes come to a close, now would be the perfect time to sell the State shareholding in the most attractive grain elevators. Investors in Poltava, Kyiv and Mykolaev, for example, have attempted to acquire the management rights to the state share in elevators they already own. Each would be eager to purchase the 25% + 1 State share if it were offered for sale.

The vast majority (about 80%) of the country's grain elevators, however, are not attractive to outside private investors. They are in poor physical condition, operate inefficiently, lack modern storage and drying equipment, are not strategically located, and have no intrinsic value other than the land they occupy. These elevators may be of interest locally – since even the country's bad elevators are local grain storage monopolists – but it is highly unlikely that outside investors will want to buy the 25% + 1 State shareholding.

PricewaterhouseCoopers recommended that the State Property Fund concentrate on marketing and selling the State shareholding in 94 strategically-located grain elevators of Cherkassy, Dnipropetrovsk, Kherson, Mykolaiv, Odessa, and Poltava. Strategic investors are already involved and committed to these enterprises and are waiting for the State to release its "temporary" hold on them. A successful, high-profile privatization campaign in these regions would give investors an opportunity to consolidate their positions and provide an impetus for further privatization, enterprise restructuring, capital improvements, and business development.

B. Khib Ukrainy. The seemingly simple exercise of defining precisely what *is* Khib Ukrainy has proven surprisingly difficult. Khib Ukrainy is a moving target that belongs to that category of enterprise

understandable only in the context of post-Soviet economic transformation: the “state joint stock company.” Its charter has never been approved by a general assembly of shareholders, its assets have never been clearly and legally defined or valued, its charter capital has never been registered with the Securities Commission, and its mission has never been articulated by the Government or its own management.

The legal successor to the former Ministry for Grain Storage and Supply, Khib Ukrainy has enjoyed the privileges that Cabinet of Ministers protection can bring. For example, KU annually distributes State-supplied inputs to farms, thus staking a sovereign claim to the grain harvest, which is the currency of the land. KU was also given outright ownership to 100 of the country’s best grain elevators. Although the number of elevators owned directly by KU is now closer to 80, this total includes the port elevators at Odessa and Mykolaev, as well as dozens of other strategically important grain storage and processing facilities. Khib Ukrainy has also witnessed the negative aspects of being an integral part of the Government-managed agricultural system: the head of Khib Ukrainy, Grigory Omelyanenko, was fired on June 17, 1999, at least in part for KU’s failure to collect payment from the farms to which it delivered Government-supplied inputs.

PricewaterhouseCoopers first direct encounter with Khib Ukrainy came during the negotiations over Cabinet of Ministers Resolution #1218 in September 1997. Our privatization and legal specialists helped to draft the text of the Resolution and advised the Cabinet of Ministers on the type and number of grain enterprises that should be kept in temporary State ownership versus those that should be immediately privatized. Once the document was adopted – following several long negotiating sessions – PricewaterhouseCoopers was invited to deliver a series of privatization seminars to KU officials in Kyiv.

During the next year, our consultants provided Khib Ukrainy with methodological assistance, training manuals, and policy advice to assist that company make the transition from former Government Ministry to private grain company. In January 1999, we signed a six-month workplan with Khib Ukrainy to accomplish the following tasks:

Khib Ukrainy Workplan	
1. Changes and amendments to the charter of the company	
1.1. Defining the Articles of the charter that should be changed to conform with legislation	
1.2. Development of separate provisions of the charter that regulate: <ul style="list-style-type: none"> • ownership relations in the company; • the powers of management bodies when establishing enterprises of various organizational and legal forms; • the identification of management functions in the company 	
1.3. Development of proposals regarding the use by the company of property not included in the statutory fund of the company	
1.4. Advice on the formation of the statutory fund of the company during its reorganization	
2. Development of a draft of the protocol on registration of shares emission	
3. Development of proposals concerning the company’s financial recovery plan	
3.1. Preparation of information on the investment attractiveness of the company	
4. Development of proposals for reorganization of the company via joint ventures created on the basis of daughter companies	
4.1. Review of legislation concerning the creation and activity of joint ventures	
4.2. Preparation of a legal analysis concerning the establishment of related enterprises	
4.3. Development of various privatization strategies for creating joint ventures on the basis of property	

The completion of this workplan – indeed, the completion of this project – represents just the beginning of the process of real change for Klib Ukrainy. During the past two years, PricewaterhouseCoopers has been able to build relationships with the key people at KU who must now guide that company through the stages of corporatization and privatization, as required by the International Monetary Fund and other donor organizations. Perhaps at some later date, PricewaterhouseCoopers will be asked to assist the SPF and KU with the preparation of an international tender for the sale to a strategic investor of a significant (no less than 26%) shareholding in Klib Ukrainy and one of the Black Sea port elevators. We might help prepare the information memorandum, company financial statements, promotional materials, international media program, market analyses, and investor surveys that the State Property Fund will need in order to conduct an open, transparent tender according to international standards. After helping prepare these materials, we could publish them on the SPF's website. Regardless of whether or not PricewaterhouseCoopers is directly involved, the privatization of Klib Ukrainy will help to ensure that it operates according to the same rules as private grain enterprises and traders. It will also generate much-needed cash for the State budget, attract strategic investors to the grain industry, and signal the end of a State-controlled grain market.

C. International donor organizations. Throughout the Mass Privatization and Agro-Monopolies Privatization Projects, PricewaterhouseCoopers consultants have provided consistent, objective statistical and analytical reporting on privatization to the international donor community, particularly the International Monetary Fund and World Bank. From 1996-98, the World Bank's Enterprise Development Adjustment Loan (EDAL) was critical in initiating and accelerating privatization in Ukraine. This loan contained conditions on the privatization of 8,500 of Ukraine's medium- and large-scale enterprises, as well as the first targets on the privatization of the grain elevators (300 "grain marketing and distribution enterprises" privatized to 70%). These targets have all been met. In 1998-99, the IMF assumed the leading role among the donor organizations in terms of privatization. Several of the conditions of the IMF's \$2.2 billion Extended Fund Facility relate directly to privatization, including the following:

56. Complete the privatization of at least 70 percent of shares in 8500 enterprises (by 9/30/98) and 9500 enterprises (by 12/31/98). **Done.**
 57. Privatization (at least 70 percent of shares) of all but 100 of the grain silos and procurement enterprises under "Bread of Ukraine" identified in Cabinet of Ministers Resolution No. 1218 (by 6/30/99). **Not fulfilled.** 351 of 442 privatized.
 58. Accelerate case-by-case cash privatization of large enterprises, including those in the telecommunications, air transportation and energy sectors. **Not fulfilled.**
 62. Liquidate (reorganize) five state monopolies which operate at the national level; complete demonopolization of monopolies in the agro-industrial sector operating at the regional level (by 12/31/98). **Partially done.** Klib Ukrainy must still undergo reorganization. Its administrative structure and regional "reach" is still largely intact, even if it does not directly control all of the country's grain elevators. Ukragrotechservice has been 90% privatized and Ukragrokhim has been liquidated, but the Government has established new organizations to take their places (see below).
- The corporatization of Klib Ukrainy as a major step toward the eventual privatization of this company (by 6/30/99) – a new condition added in May 1999. **Not fulfilled; in progress. Likely to be done by 7/31/99.**

Gore-Kuchma Commission. The Project also advised both U.S. and Ukrainian officials of the "Gore-Kuchma Commission on Trade and Investment" on progress in achieving the privatization objectives agreed upon by the Commission. According to agreed benchmarks on reform in Ukraine's agro-industrial complex (AIC), the Government of Ukraine (GOU) is expected to:

Prepare a realistic plan for the demonopolization of Khib Ukrainy (KU) and privatize all but 100 of its facilities.

Fulfilled. Cabinet of Ministers Resolution #1218 (November 5, 1997) excluded 442 enterprises (all but 100) from KU and launched their privatization. On November 30, 1998, the Cabinet of Ministers amended the charter of KU and transferred 19 grain enterprises to the State Reserve Committee, thus reducing the number of enterprises in Khib Ukrainy to 81.

Fully privatize by June 30, 1998 all but 100 of the grain elevators, grain receiving and selling stations, grain processing kombinats and grain distribution bases in Ukraine.

Not fulfilled. As of June 30, 1999, 351 of 442 ex-Khib Ukrainy grain enterprises have been 70%+ privatized. Privatization plans of 435 of these 442 ex-KU enterprises have been agreed with the Cabinet of Ministers.

More than 330 of these plans envisage temporary state ownership of 25% of shares for up to 5 years, which contradicts the above requirement to fully (100%) privatize the enterprises. There has been no indication that the Government will sell this temporary state share. On the contrary, both Khib Ukrainy and the National Agency for the Management of State Corporate Rights (NAMSCR) have lobbied for the right to manage this state share.

Rescind Cabinet of Ministers Resolution #152-R (March 25, 1997) establishing “Agrotechnology” and stifle any initiatives to create similar parastatal organizations.

Not fulfilled. According to our data, Resolution #152-R was not canceled and a host of other parastatal associations, unions, and holding companies (Ukragromashinvest, Agrokhimcenter, Sadvinprom, Ukrptakhaprom, Ukrkhibprom) continue to impede the development of a free and open agricultural sector in Ukraine.

Develop an acceptable plan for demonopolization and initiate the privatization of “Ukragrokhim” and “Ukragrotechservice” by June 30, 1998.

Partially fulfilled. Ukragrokhim is now liquidated. In its place was established “Agrokhimcenter,” a commercial entity registered as a private joint stock company. It is unclear to what extent the Government controls or influences the decisions of this new company. Data on Ukragrotechservice is suspect, but we estimate that it oversees more than 900 enterprises, 751 of which have been privatized to a depth of 70 percent. The issue is not whether or not the enterprises comprising the monopolistic structure have been privatized. Rather, we are concerned with the extent to which the state-owned, headquarters operations control or influence the activities and decisions of the “private” enterprises.

Perhaps more troubling, a new State-owned leasing organization, “UkrAgroLeasing”, was created in May 1999, for the purpose of supplying machinery, tractors, vehicles and spare parts to agricultural producers and processors. Under its charter, the new company will be engaged in machinery distribution; organizing and overseeing leasing transactions; and the import and export of agricultural products.

Additionally, “UkrAgroLeasing” will provide services related to machinery maintenance; organize trade to guarantee settlements for supplied machinery; develop and implement investment and innovative projects; and set up machinery and engineering centers. The state owned property of “UkrAgroLeasing” was transferred to the enterprise’s full financial and managerial control. The sources of the company’s assets are: property contributed by founders, income generated as a result of economic activity; bank credits; charity contributions; funds to be collected as payment for leased machinery, tractors and cars.

Funds to be generated as a result of the company's economic activity will be invested exclusively into agriculture.

D. Antimonopoly Committee. PricewaterhouseCoopers signed a workplan with the Antimonopoly Committee (AMC) to promote the demonopolization of Khlib Ukrainy, Ukragrotechservice and other agro-industrial monopolists. PwC monitored the behavior of Khlib Ukrainy and voluntary grain elevator “unions” at a regional level; drafted procedures for the restructuring of agro-industrial holding companies; provided recommendations regarding the establishment of grain storage cooperatives; and conducted a training seminar for AMC officials on privatization and demonopolization in the agro-industrial complex.

On April 22, at the request of the Antimonopoly Committee, we visited “Karavai” joint stock company in Lugansk oblast to gather data for a detailed study on the restructuring of regional grain associations. “Karavai” is actually an association of 19 regional bakeries and was established in 1993 under the name, “Lugansk Khlib.” Last year, AMC filed suit against the company to force it to break up. The Luhansk oblast court ruled in favor of Karavai, saying it could find no proof that the company violated Ukraine’s antimonopoly legislation. The case is now with the Supreme Arbitration Court of Ukraine.

Unfortunately, the AMC has been very reluctant to share enterprise-specific economic data with the PricewaterhouseCoopers team – and lately has even refused to meet with the Project’s consultants. As a result, we will be unable to “analyze the financial performance of grain elevators before and after privatization”, as called for in item 5 in the Task Order workplan.

Selected Agro-Industrial Cases, Antimonopoly Committee of Ukraine, 1999

January, 1999

Donetsk Regional Branch of Antimonopoly Committee of Ukraine completed consideration of the case on the jointly planned and undertaken anti-competitor actions concerning the Donbaskhlib corporation (founded by 12 participants) with 23 enterprises (including 19 bakeries). This corporation was a monopoly on the regional bread distribution market. The corporation participants pursued a concerted financial and economic policy. That is proved by the efforts directed at maintaining unreasonable monopolistic prices at the same level during the whole of 1997. In terms of production costs the level of profit was regulated through alteration of the rate of actual profitability from 0.3 to 23%. The offenders were fined a total of 144 thousand UAH.

Kharkiv Regional Branch of Antimonopoly Committee of Ukraine considered the case of the Balakliiske Grain Procurement Enterprise. The Regional Branch found that the above enterprise fixed prices for its services [for storage, procurement and shipping] in such a manner that all other clients had to pay 18.3 % more than agricultural producers, i.e. the former have been discriminated against. The Antimonopoly Committee Branch head, in accordance with text paragraph 6 of Article 4 of the Law of Ukraine “On Prevention of Monopolism and Unfair Competition”, imposed on the offender a fine of 2,008 UAH.

Kherson Regional Branch of Antimonopoly Committee of Ukraine considered the case of Novooleksiivsky Grain Processing Center, stipulated in text paragraphs 2, 6, 7 of Article 4 of the Law of Ukraine “On Prevention of Monopolism...”, which consisted in selective pricing policy, i.e. in application of different tariffs on the enterprise services – the agricultural producers paid much less than all other customers of the enterprise. When a new owner purchased and assumed his right of ownership to grain and stored it at the elevator, the latter imposed upon the new owner a duty in amount of 10% of the grain storage service price. As a result the enterprise illegally gained 1,995 UAH. The offender has been fined 3,908 UAH. The Regional Branch is currently trying to recover the illegal income for the state budget.

Crimea Regional Branch of Antimonopoly Committee of Ukraine has put an end to violations of antimonopoly legislation on the part of Ahrosnab open joint stock company, stipulated in text paragraph 6 of Article 4 of the Law of Ukraine “On Prevention of Monopolism...”, which consisted in fixing different prices for consumers operating in similar conditions. The offender has been fined.

February, 1999

Vinnitsa Regional Branch of Antimonopoly Committee of Ukraine started litigation against Khmelnytskyi Elevator: this enterprise while shipping processed grain, demanded that its clients overpay for quality certificates. Meanwhile this service price had already been included into the elevator services price cost. The elevator also unreasonably increased the price for grain drying by 0.60 UAH per ton through overstating the rate of diesel fuel consumption.

As a result, the elevator’s customers suffered losses that amount to 1,665.5 UAH. For violations of antimonopoly legislation, stipulated in text paragraph 7 of Article 4 of the Law of Ukraine “On Prevention of Monopolism...”, the Khmelnytskyi Elevator open JSC has been imposed a fine of 2,608 UAH.

The head of Vinnitsa Regional Branch of Antimonopoly Committee of Ukraine ordered to fine (respectively 2,315 UAH and 139 UAH) Soroksky Grain Processing Center and VinnitsaKliboproduct company for violation of antimonopoly legislation for late submission of reports.

Crimea Regional Branch of Antimonopoly Committee of Ukraine considered the case of violations committed by the Urozhainensky Grain Processing Center. The branch found that the enterprise was charging different prices for counterparts operating in similar economic conditions, which is discrimination. The enterprise was fined 1,500 UAH.

Sumy Regional Branch of Antimonopoly Committee of Ukraine filed a case against Hlukhiv Grain Procurement Enterprise under text paragraph 7 of Article 4 of the Law of Ukraine “On Prevention of Monopolism...” – fixing different prices for grain storage services which results into infringement of rights of some customers.

March, 1999

According to the Order of Antimonopoly Committee, Monsanto Ukraine company, that distributes plant protection inputs, was permitted to purchase a shareholding in Cargill closed joint stock company (mineral fertilizers distributor, Kyiv) and in Cargill-Dnipro – Artificial Selection and Seed (Dnirpopetrovsk), closed joint stock company (developments and scientific research in seeds). This acquisition will not result in the emergence of a national monopoly on the market of grain, beans and rice seeds distribution.

Kirovohrad Regional Branch of Antimonopoly Committee of Ukraine has considered the case of Soniashnyk closed joint stock company. 3,000 UAH fines were imposed on KirovohradOlia open joint stock company and on Zernozahotivelnna Kompania ltd. The oblast branch also gave its consent to establish Soniashnyk closed joint stock company and the relevant documents were agreed upon by the founders and the authority.

Dnipropetrovsk Regional Branch of Antimonopoly Committee of Ukraine initiated the consideration of a case against a Ukrainian-Panamanian company “Ahropostachzbut ltd.” for violation of antimonopoly legislation under Article 15 of the Law of Ukraine “On Prevention of Monopolism...”. The company acquired a share package in Tsarychanskyi factory of mineral waters without obtaining the consent of the Antimonopoly Committee of Ukraine.

April, 1999

Luhansk Regional Branch of Antimonopoly Committee of Ukraine ordered Plodorodie company (Luhansk) to cease violating antimonopoly legislation, as stipulated in text paragraph 6 of Article 4 of the Law of Ukraine “On Prevention of Monopolism.” The company fixed unreasonably different trade mark-ups for its customers when the latter were purchasing its products (chemicals for plant protection). The offender was fined 440 UAH.

Sumy Regional Branch of Antimonopoly Committee of Ukraine ordered Okhtyrka Grain Processing Center, a "Khlib Ukrainy" subsidiary, to cease violations of the antimonopoly legislation under text paragraph 6 of Article 4 of the Law of Ukraine “On Prevention of Monopolism.” The Center fixed discriminative prices for its services of processing the customers’ own grain, which infringed the rights of certain customers. The offender was fined 2,550 UAH.

Sumy Regional Branch of Antimonopoly Committee of Ukraine initiated consideration of a case brought by the Sumy State Seedage Inspectorate, who

- recommended to the oblast residents to purchase seeds only in Sortonasinneovoch brand shops;
- ordered repeated certification of seeds in its laboratories.

Cherkasy Regional Branch of Antimonopoly Committee of Ukraine gave its consent for the establishment of Agropostach Association; approved its corporate charter and constituent agreement and the code of employees conduct for Association members. The Association has 20 founders who are operating on the oblast AIC inputs market. The association has been founded to improve the situation in the domain of farm inputs distribution in the region.

E. Cabinet of Ministers. Project consultants served as informal advisors to MAIC Deputy Ministers Luzan and Sheiko on privatization, investment and property issues. In addition, PricewaterhouseCoopers advised the Inter-Ministerial Committee on Agrarian Reform (now subordinated to Vice Prime Minister Hladiy) on elevator privatization and the reform of Khlib Ukrainy as they relate to the IMF EFF loan. In particular, we advised IMCAR to urge the Government to consolidate large (26%-51%) share packages and sell them via specialized cash auctions or the stock exchanges (without the extra investment obligations attached to tenders). This was proposed as an alternative to the State Property Fund’s plan to change the share allocation plans of hundreds of elevators to increase the amount allocated for “free transfer” to grain suppliers from 38% to 51%. The SPF succeeded in convincing the Cabinet of Ministers that this procedure was a faster way of achieving the depth of privatization targets set by the IMF. Subsequent events have unfortunately proven that not to be the case.

F. American Chamber of Commerce. The Project’s director served as secretary of the AmCham’s Agricultural Committee during the course of the Project and advised the AmCham on privatization and grain market issues. The Agricultural Committee was established to support and promote the development of a market-based agricultural sector as a significant contributor to the overall development of Ukraine’s economy. The Committee’s aims include promoting fair play in the Ukrainian agricultural sector through positive interaction with relevant Ukrainian policy-makers, Government agencies, the U.S. and other foreign governments, the donor community, and others active in Ukraine’s agricultural sector.

Major activities in 1999 to date include:

Oilseed export duty opposition - The Ag Committee has taken a leadership role on this issue through countless high-level meetings, position papers and economic analyses. Brian Foster, Committee Chairman, prepared a concise summary of the Committee’s opposition to the proposed 23% export tariff and delivered it to the International Monetary Fund on April 20, 1999. The latest AmCham analysis is a

paper by David Sedik of the Center for Privatization and Economic Reform in Agriculture, “The Economic Effects of Export Duties for Ukrainian Sunflower Seeds in 1999.”

Transgenics working group – This working group, led by Pioneer, Monsanto, and CNFA, has been active since October 1998. Although the group has been unsuccessful in its attempt to register genetically-modified organisms in Ukraine such as Monsanto’s BT potato, the effort will continue. The working group sponsored a workshop on “Biotechnology in Plant Growing” on Thursday, March 18.

Credit bureau – The Ag Committee has researched the idea of establishing a credit bureau to provide reliable, objective data about the credit-worthiness of Ukrainian farms that purchase Western seeds, fertilizers, herbicides, etc. The Committee designed the scope of work and budget for a feasibility study on establishing the credit bureau and plans to move forward with those plans.

World Bank pre-export guarantee – The Committee has advocated adoption of this program since it was first debated (and ultimately rejected) by the Verkhovna Rada in 1998. The Committee recently helped to put this issue back on the VR’s agenda and we are hopeful for an endorsement this time around. The Committee prepared several letters of support for the program and sent them to key parliamentarians, including Oleksandr Moroz, chairman of the parliamentary agricultural committee.

Gore-Kuchma Commission – The Committee has participated actively in semi-annual meetings of the Gore-Kuchma Commission on Trade and Investment, in particular preparing discussion papers on grain elevator privatization, the oilseed export duty, and the demonopolization of the former state grain monopolist, Khlib Ukrainy.

III. USAID Regional Agricultural Development Program

PricewaterhouseCoopers joined USAID’s team of agricultural consultants in November 1997, just as the Mission was completing a complete strategic review of all assistance programs. Over the next six months, the objectives, timing, recipients and resources of USAID’s agricultural development program were radically redesigned and the outline of a new project centered on three oblasts – Odessa, Poltava, and L’viv – began to emerge. PricewaterhouseCoopers played an immediate and active role in helping USAID to formulate and design its new agricultural development strategy.

PwC’s work on elevator privatization and the demonopolization of AIC parastatal organizations is fully consistent with USAID’s emphasis on privatization and the development of private sector mechanisms for the production, storage, processing, distribution and marketing of agricultural commodities and equipment. Our new project was designed to encourage private sector development while helping to limit and eliminate the involvement of “parastatal” organizations like Khlib Ukrainy, Ukragrotechservice, and Ukragrokhim in grain storage, processing, and marketing; equipment production and distribution; and input distribution.

L’viv. In L’viv oblast, we assisted the Regional Property Fund carry out the laborious “free transfer” procedures described at the beginning of this report. We also provided direct enterprise consulting to the “L’viv Grain Procurement and Storage” enterprise. This elevator is the largest and most active in the oblast, located just outside the city center. Although the State retains a 25% share package, the elevator’s workers and management have been able to acquire a 30% stake and plan to obtain additional shares via the “free transfer” mechanism. PricewaterhouseCoopers prepared the elevator’s privatization plan, advised management and staff on corporate governance and recently visited the enterprise together with a farm management expert from RONCO.

Our full-time privatization specialist in L’viv provided direct consulting assistance to L’viv’s 20 grain elevators on areas such as valuation, inventory, share registration, free transfer of shares to suppliers,

share sales, shareholder rights, and the first general shareholders meeting. Our L'viv consultant also worked closely with RONCO and the reorganizing farms; Chemonics and the commodities exchange; the RPF and privatizing elevators in L'viv; and private grain traders in the oblast. The idea was to support USAID's Ag Strategic Objective No. 4 (p. 8 of the draft Strategy):

Promote networking among private farms/farmers, distributors, grain elevators and others so that private actors have greater knowledge of their alternatives to government inputs on grain sales to the government.

Odessa. Our privatization specialists also participated actively in regional working groups at each of the three target oblasts. In Odessa, for example, PwC consultant Yulia Ivanchook developed strong ties with the local privatization authorities, other USAID agriculture development projects, and other donor organizations.

PricewaterhouseCoopers provided privatization technical assistance to agricultural enterprises in Odessa oblast since 1995. With the launching of USAID's new regional strategy for Odessa in 1999, PricewaterhouseCoopers began to investigate the linkage between the grain processing industry and producers of grain (i.e., collective agricultural enterprises, private farmers and agricultural cooperatives).

From 1997 – 1999, PricewaterhouseCoopers consultants provided technical assistance to the Odessa Regional Property Fund and grain storage, processing and marketing enterprises subject to privatization. Our team drafted privatization plans, charter documents, tender proposals, and share sales protocols for all 26 grain elevators in the oblast. All of them are now privatized to a depth of 75%.

From January-June 1999, we worked to implement the new USAID Regional Strategy in Odessa. In particular, we

- made 6 site visits (together with **Chemonics** and **RONCO**) to privatized elevators (two owned by employees, two owned by strategic investors, one owned by a portfolio investor and one which belongs to the State Joint-Stock Company “Khlib Ukrainy”);
- delivered a seminar (in cooperation with **USDA** and **RONCO**) for members of USDA's cooperatives and farmers who are shareholders in the oblast's grain elevators. The seminar covered shareholders rights and the legal aspects of managing a joint stock company;
- organized in cooperation with **Monsanto** and **Virginia Tech** a seminar on grain storage and processing for elevator specialists of the oblast;
- provided individual consulting on corporate governance and corporate finance to cooperative members;
- prepared a detailed investment profile for Sarata elevator, a fully-privatized elevator with a large storage capacity and a flour mill. Farmers from USDA-supported cooperatives regularly travel out of their way to store grain at the elevator. The majority owner of the enterprise is a Kyiv-based investor with plans to construct an oil and gas distribution network and assemble a harvesting team with U.S. equipment. We have also advised the enterprise on privatization and corporate governance issues
- prepared investment profiles and financial analyses for 3 grain processing enterprises, upon agreement with the elevators management;
- published this information on the State Property Fund's Privatization and Investment website;
- delivered a seminar on corporate governance to elevator managers; and
- conducted two joint seminars with the **RONCO** or/and **British Know How Fund** projects for farmers on shareholders rights and business development.

Poltava. PwC consultants delivered assistance to the grain storage cooperative “Urozhai” in Chutovo (property leasing and registration issues), Globyno elevator (corporate governance) and the Yuskivtsi grain elevator in Lokhvitsa, owned by American investor George Chopivsky (preparations for the first

general shareholders meeting, management of the State-owned share package). In both Odessa and Poltava, we prepared detailed profiles of select grain elevators and posted them on the SPF's official website. For Globyno elevator, PwC agro-industrial privatization specialist Halyna Maliborskaya prepared the following profile:

Globyno Elevator (Poltava Oblast)

The main enterprise activity is grain procurement, storage, purification and drying. Globyno elevator was built in 1949. The main line production facilities were established in 1957-1958. The enterprise has three areas with total square 26.9 ha. The first division (situated directly in Globyno) occupies 7.2 ha and has elevator with a capacity of 7,250 tons, storage facilities with a capacity 21,200 tons, stationary dryers, electrical and machine shops and also a store. The second (main) division (9.9 ha) includes flow process bay which provides full technological process of grain procurement, drying loading or storing. The third division (9.8 ha) is situated 25 km from main territory in Pogreby village and has drying facilities, machine shop, laboratory and a subsidiary farm.

The enterprise has solid infrastructure: there is a hard surface road and railroads. Water, electricity and heat supply are also available. The enterprise is completing construction on an independent gas supply system. At present the enterprise operates below capacity:

Services	Installed capacity, thousands tons per year	Actual production during the last 12 months, thousands tons per year
Grain procurement	84,3	50,1
Grain storage	84,3	21,4
Grain purification	84,3	40,2
Grain drying	84,3	49,4

The enterprise also operates on a shortened week. The number of employees is 179 and according to the director of enterprise there are no plans to reduce the number of staff. The enterprise has no wage debt.

Privatization Status, Ownership and Corporate Governance:

On the 24th of March 1998 the "Globyno Elevator of Bread Products" was registered as a joint stock company. Immediately after registration, the company began to sell shares. The charter fund is 1,200,000 UAH and the number of shares is 4,800,000.

The ownership structure is outlined in the table below:

	State	Employees of enterprise (of which director)	Suppliers (PPC, CC, cash)	Suppliers (free transfer)	Outside buyers	
					Stock exchange	PPC auction
Initially planned	51.00%	24.00%	25.00%	0.00%	0.00%	0.00%
Actually sold	11.63%	11.5% (5.00%)	0.87%	50.13%	25.00%	0.87%

The enterprise will be privatized to 100%. The 11.63% state package will be offered for open sale at stock exchange and is expected to be acquired by a current major shareholder.

The total number of shareholders exceeds 2,000 persons. 25% was bought as one package at stock exchange at price 0,3995 UAH per share (with par value 0.25 UAH). The buyer is allegedly a grain trader with trade relations with Italy, Germany and the United States. He is a major shareholder of the JSC and now is actively buying shares from agricultural suppliers (physical persons) trying to consolidate the controlling share package (not less than 51%).

The director has managed the enterprise for ten years. He is now a Chairman of the Board of Directors and was elected for this position for three years at a shareholders' meeting on May 12, 1999. The shareholders' meeting also elected a new Observation Board and Audit Commission.

Business environment

The main clients are of course the grain farmers of Globyno and surrounding raions. Khlib Ukrainy and Derzhkomrezerv are also clients - in 1997 the enterprise stored 470 tons and in 1998 50 tons of State grain. Until recently the enterprise was a monopolist at the raion level. But in March 1999, a grain storage cooperative of private farmers was established and became a minor competitor to the elevator. The cooperative was established according to the methods used for "UROZHAY" cooperative and will lease storage premises at a raion inter-farm feed plant.

Current enterprise prices:

Services	Price, UAH
Grain procurement	1.96 per ton
Grain storage	6 ton/per month
Grain purification	1.8 per ton
Grain drying	2.62 per ton

Enterprise Strategy

The director of enterprise is satisfied with the current situation at the enterprise and expects a major investor to acquire shares soon. He hopes that decisions will be made together with this new owner who will provide greater capacity usage. The management is rather independent from «Khlib Ukrainy» and now is planning to refuse to store state grain at low prices (such as 1.5 UAH ton per month for Derzhkomrezerv) and begin to work with these state structures on market terms.

To make services less expensive and to increase the marketability of production, the enterprise is planning to finish gas supply construction, buy seed crushing facilities, and mill flour. The preliminary cost estimate for this upgrade is as follows:

- Gas supply and gas boiler – 150,000 UAH;
- Crush seed facility – 50,000 UAH;
- Flourmill – 150,000 UAH;
- Pearling mill – 50,000 UAH.

Due to a lack of working capital, the enterprise is unable to invest in equipment upgrades (these investment commitments were in a commercial tender which was subsequently overturned). In the future they would like to restructure the enterprise by separating auxiliary production into separate structural subdivisions.

Mykolaev. A trip to Mykolaev to attend Chemonics' national commodities exchange conference revealed that privatization of the grain elevators can accomplish only so much. Again, to refer to the USAID strategy, what is important is the network of market connections linking the farms to the inputs distributors to private elevators to commodities exchanges and grain traders. There is a real chance for success in achieving this synergy or "linkage" in Mykolaev oblast. We worked with other USAID contractors in the Southern region (especially Chemonics) to ensure that "grain privatization is linked to local/regional marketing" (as p. 12 of the draft strategy states).

Kyiv. Despite the new shift in priority to the regional level, much important policy work remains to be done in Kyiv. We pushed for the full privatization (to 100%) of all but 100 grain elevators, which will become now that the National Agency for the Management of State Corporate Rights has management control of the 25% state share in more than 300 grain elevators. Our specialists worked with the Cabinet

of Ministers, the SPF, the Anti-Monopoly Committee, and IMCAR to continue the momentum of elevator privatization and advance the agreements reached by the Gore-Kuchma Commission. We also worked closely with the Ukrainian Grain Association, the League of Entrepreneurs in AIC, and the AmCham to promote elevator privatization, demonopolization of Khlib Ukrainy, and the development of private input and grain markets. Finally, PwC's databases of privatized and privatizing AIC enterprises (food processing, sugar, oilseeds, grain storage and processing, etc) served as a resource for GOU officials, private investors and the international donor community (including the IMF).

IV. Training and Knowledge Transfer

Seminars. From November 1998 through June 1999, PricewaterhouseCoopers delivered training seminars at a frenetic pace. PwC consultants conducted 12 privatization and corporate governance seminars for more than 400 people in 8 regions of Ukraine (Lviv, Cherkassy, Vinita, Poltava, Chernigiv, Odesa, Donetsk, Kiev). We visited three of these oblasts (Lviv, Odesa and Poltava) very frequently due to USAID's new agricultural strategy. Seminars and training materials focused on property registration, free transfer of shares to grain suppliers, tender regulations, attracting foreign direct investment, shareholder rights, corporate structure, and planning for a general shareholders meeting.

The 12 seminars do *not* include joint training seminars conducted together with Chemonics (grain marketing and elevator management), USDA (grain storage cooperatives) and RONCO (shareholders rights, land and property leasing) in the three oblasts. During the course of the eight-month Project, we co-sponsored five joint training seminars in total.

During the Project, PwC specialists developed and conducted the following seminars:

- **Privatization of AIC enterprises: step-by-step.** This type of seminar highlighted such issues as inventory and state enterprise property evaluation, statutory fund calculation; development of privatization plan; JSC and share issue registration; and share sales.
- **Preferential share sale of AIC enterprises.** This seminar covered all questions connected with preferential sales both to employees and to agricultural producers as well as all questions re: free transfer of shares.
- **Share sales of AIC enterprises for cash.** The seminar covered such types of share sales as commercial tenders; stock exchange and OTC; and cash auctions.
- **Privatization and Restructuring of Grain Marketing and Distribution Enterprises, Corporate Governance and Preparation for the First Shareholders' Meeting.** This seminar was devoted to such questions as joint stock company (JSC) activities (legislation, experience and problems); the governing bodies of a JSC; preparation and conducting of the first shareholders' meeting; statutory documents and internal regulations of JSC; opportunities for private investment.
- **Shareholders' rights and governance bodies of JSC from a shareholder's point of view.** The seminar was prepared and conducted for agricultural producers (farmers, collective enterprises) who became shareholders of grain elevators in the process of privatization.

Participants

The target audience during the seminar can be divided into three large groups:

1. Management of JSC (directors, heads of board of directors, chief economists, lawyers, accountants);
2. Representatives of state organizations which are involved in the privatization process (the Regional Property Fund, the Securities Commission, regional branches of the Ministry of AIC, regional branches of the Anti-Monopoly Committee, National Agency for the State Corporate Rights Management, departments of economics of oblast administrations, representatives of rayon administrations);
3. Shareholders of grain elevators, namely farmers, cooperatives members, collective agricultural enterprises, etc.

Selected seminars

Topic: “Privatization and Restructuring of Grain Marketing and Distribution Enterprises, Corporate Governance and Shareholders Rights”

Date: February 10, 1999

Place: Odessa, USDA premises

Audience: Heads of Boards of Directors of 4 cooperatives, established by USDA commercial agriculture development project, cooperatives Board members, RONCO Agricultural Land Share Project Odessa office representatives, USDA project employees, Chemonics Odessa team members. (Total 30 people).

Agenda:

1. Introduction on the new USAID strategy implementation plan.
(John Ellerman - USDA Odessa Project Coordinator)
2. PricewaterhouseCoopers and AIC Privatization Program. Grain Marketing and Distribution Enterprises Privatization: progress and problems.
(Yulia Ivanchook – PwC consultant)
3. Functioning of the Open Joint Stock Companies, created in the process of privatization of Grain Marketing and Distribution Enterprises: legislation, experience and problems.
(Lilia Galanternik – PwC consultant)
4. Statutory documents and internal regulations of a joint stock company.
(Olga Fedonina, Yulia Ivanchook – PwC consultants)
5. Conducting contracts and leasing agreements with JSC.
(Olga Fedonina – PwC consultant)
6. Land leasing from the land titles holders, legal aspects, pros and cons.
(Victoria Hmaruk - RONCO lawyer)
7. Production survey presentation.
(Michailo Pryimak - Chemonics Int.)

The most interesting questions asked during the seminar were about the authorities and power delegated to the Head of Board of Directors of open joint stock companies. According to the Law of Ukraine, the authority of each governing body should be stated in the Statute of JSC and approved by the general shareholders meeting. Another set of questions concerned the internal regulations of the JSC, which appeared to be very similar to the documents that have to be created for farmers' cooperatives. The division of responsibilities within the coop is also similar to the one in a JSC, so the questions were very specific and detailed. Land leasing issues, raised by RONCO lawyer, were of great interest to the farmers and provoked very interactive discussion. This seminar was unique for PwC as it was the first time we conducted a seminar for farmers who are shareholders or clients of the newly privatized elevators. At the same time it was a kind of pilot action performed together by different contractors. We understand that neither elevator nor farmer or "restructured farm" exist in a vacuum, separated from each other, so we see in place the natural need for establishing business links on the new, governmental interference free basis.

Topic: “Privatization and Restructuring of Grain Marketing and Distribution Enterprises, Corporate Governance and Preparation for the First Shareholders' Meeting”

Date: January 25-26, 1999

Place: Chernigiv

Audience: Directors, Chief Accountants and Chief Economists of 31 AIC enterprises from Chernigiv region, RPF employees, 14 representatives of local authorities: Securities and Stock Market State Commission, Anti-Monopoly Committee, Agency for the State Corporate Rights Management, State Tax Police, State Security Service, Anti-Organized Crime Unit. (Total 80 people)

Agenda:

1. Introduction on the pace of privatization in the region, importance of knowledge of shareholders' rights and main principles of the corporate governance.
(Litvinov Mukola Ivanovuch - Chernigiv RPF Chairman)
2. PricewaterhouseCoopers and AIC Privatization Program. Grain Marketing and Distribution Enterprises Privatization: progress and perspectives.
(Galina Medvedeva – PwC consultant)
3. Functioning of Open Joint Stock Companies created in the process of privatization of Grain Marketing and Distribution Enterprises: legislation, experience and issues.
(Galina Maliborskaya – PwC consultant)
4. Preparation for the First General Shareholders' Meeting.
(Galina Medvedeva – PwC consultant)
5. Statutory documents and internal regulations of a joint stock company.
(Mikhail Tereschenko, Galina Medvedeva, Galina Maliborskaya – PwC consultants)
6. Conduct of the General Shareholders' Meeting.
(Mikhail Tereschenko – PwC consultant)
7. Questions and Answers.

Questions Asked During the Seminars

Q: Can the head of a collective agricultural enterprise who has his/her own shares be nominated for the position of the OJSC Board member?

A: Yes, he/she can, but only if:

- 1) shareholders voted for his candidature at a shareholders meeting;
- 2) he/she resigns from the position as head of the collective agricultural enterprise;
- 3) he/she concludes an appropriate employment contract with the OJSC.

Q: Can a dormitory be contributed to the statutory fund during the privatization of grain processing enterprises?

A: No, since such assets are included into the housing fund and must be privatized in accordance with the Law of Ukraine "On Privatization of housing facilities".

Q: Is it possible to change the plans for an unfinished construction object that has been contributed to an OJSC statutory fund, for example to use it in the future as housing fund?

A: Before making such a decision, the issue must be discussed and agreed with all appropriate structures and authorities.

Q: Why publish in newspapers the list of major shareholders (those holding 5% and more shares)?

A: This is a requirement of provisions of the SSMSC and antimonopoly legislation (SSMSC Regulation 36, February 18, 1998, clause 18, Section).

Q: Is it possible to declare bankrupt an enterprise with a share that has been temporarily retained in state ownership?

A: Yes it is, assuming that the privatization – in accordance with the share allocation plan - has been completed (the privatization process is deemed as completed once the enterprise shares have been sold per the share allocation plan).

Q: Who is liable for the debts in case of a subsidiary bankruptcy?

A: The subsidiary is liable for its property, but the parent company shall also be liable for the subsidiary's property that is owned by the parent, according to its charter. (Law on bankruptcy)

- Q:** Is the subsidiary liable for its parent's debts if the latter has been recognized as bankrupt?
- A:** The subsidiary is liable for parent debts within one year after its foundation if the foundation (transfer of a share of property to the subsidiary) adversely affected the parent's financial health.
- Q:** Why print notification on general shareholders' meeting in one of Cabinet of Ministers/Verkhovna Rada/SSMSC official printed editions if 93% of shareholders reside in the area of the open JSC location?
- A:** According to the provision of Article 43 of the Law "On Business Associations".
- Q:** What should be done if an enterprise is unprofitable and does not have the means to place a notification on the conduct of shareholders' general meeting in a newspaper?
- A:** A shareholders' meeting held without notification in the newspaper shall be declared void according to Article 43 of the Law "On Business Associations".
- Q:** Will the shareholders who acquired shares but have not been registered as shareholders as of the date of shareholders meeting be qualified to attend the meeting?
- A:** They will be entitled to attend, but on a non-voting basis. The right to participate in the general shareholders' meeting is restricted to persons who are owners of shares as of the day of the meeting conduct. (Article 43 of the Law "On Business Associations". Article 5 of the Law "On National Depository System and Circulation of Securities in Ukraine" prescribes that the right of ownership is assumed after the moment of introduction of relevant changes into the register of securities owners. «The rights to participate in corporate governance, to receive profits etc., flowing out of the registered securities, may be realized since the moment of the introduction of relevant changes into the registered securities owners register»
- Q:** What internal regulations – besides the Regulation on the Board and the Regulation on the Supervisory Council – are crucial for joint stock company activity?
- A:** The procedure for conducting the general shareholders' meeting, the Regulation on the Audit Commission, the Regulation on the procedure for establishment, restructuring and liquidation of subsidiaries and representative offices etc. Our more comprehensive answer to this question may be found on page 14 of the "Guide to the preparation of the first general shareholders' meeting ...", created by the consultants of the AMPP project.
- Q:** What funds may the issuer use while buying more shares?
- A:** The issuer may purchase additional shares at the expense of profits only (Article 39 of the Law "On Business Associations").
- Q:** Is an open JSC entitled to increase its statutory fund?
- A:** Yes it is, assuming that all shares from the previous issue have been sold. The enlargement of the statutory fund is achieved through additional issues, exchange of bonds for shares or via augmentation of the shares nominal value. (Article 38 of the Law "On Business Associations").
- Q:** Should the enlargement of the statutory fund be subject to mandatory approval by the shareholders' general meeting?
- A:** The enlargement of the statutory fund by not more than 1/3 of its initial size may be done according to the Board's decision, given the open JSC Charter contains the relevant provision, however the decision will be the subject to approval by the following shareholders' general meeting. The modifications to the Charter, related to the enlargement of the company statutory fund, shall be registered by the authority that registered the company.
- Q:** What should be done if a certificate auction sale resulted in shares splitting and a new nominal value?
- A:** The shares issue must be re-registered with the SSMSC. (SSMSC Regulation #36).

Q: What is the procedure for privatization of joint ventures (interbusiness associations)?

A: The procedure for privatization of such enterprises is governed by the SPF Regulation #714. (the Regulation text has been provided to the person who asked the question).

Q: Can shares retained according to the share allocation plan in the state ownership be subsequently sold?

A: Under the Law “On Peculiarities Of Privatization in Agro-Industrial Complex”, the share packages in enterprises, whose privatization must be agreed upon with the Cabinet of Ministers, are subject to retention in the state ownership on the temporary basis. There is no special CabMin Resolution regarding the retention of grain elevator share packages in state ownership. Therefore, these share packages may be sold without delay.

Materials Distributed during Seminars

The following publications on the privatization of the agro-industrial complex were prepared, published and distributed by PricewaterhouseCoopers consultants during seminars:

Guide to Valuation of Enterprises Subject to Privatization.

Performing the valuation of an integral property complex subject to privatization is an important and complicated task. This Guide was created in order to provide practical assistance to the managers of an enterprise being privatized as well as privatization officials. It explains in detail the methodology for evaluating property and its practical application. Along with methodological recommendations, this Guide contains the legislative framework for the valuation of state-owned and leased enterprises. It contains not only methodological materials but also examples applying those methodologies. The reader is encouraged to complete the protocols of valuation of property for various types of enterprises and provided with detailed instructions regarding the calculation of an enterprise’s value. Such exercises make it easier to understand this complex subject.

Guide to the Preferential Sale of Shares.

The preferential sale of shares is an important step in the privatization process due to the fact that it is the first point in which the transfer of ownership begins from state to private hands. The Guide outlines the regulatory and methodological framework for the completion of an enterprise’s preferential sale of shares to employees, management, and other entitled individuals. It is designed to assist state-owned enterprises that have not yet started the privatization process, 100% state-owned joint-stock companies, and enterprises that are leased by the SPF. The Guide provides SPF staff and enterprise directors and employees with all relevant information regarding who can participate in preferential sale, instructions for the appropriate groups, procedures for conducting preferential sales and other relevant legislation.

Guide to Conducting Inventory of an Enterprise’s Property.

Current enterprise accounting regulations require that all enterprises systematically conduct a comprehensive inventory of property and financial obligations. The inventory is required prior to the privatization of state owned and leased enterprises. This Guide provides the managers of enterprises scheduled to be privatized - and privatization officials - with answers to questions which emerge in the process of preparing and conducting inventory, the compilation of the inventory, report discrepancies discovered in the inventory process, how to show such discrepancies in the accounting statement, and other practical inventory issues.

Step-by-Step Guide to Privatization of Agro-Industrial Complex (AIC) Enterprises.

This Guide is intended for agro-industrial privatization specialists of the SPF and directors of AIC enterprises to be privatized. It takes into consideration the specialized privatization program for enterprises in the AIC. This Guide contains information, which allows the reader to implement the AIC privatization procedures for an individual enterprise:

- step by step implementation of required measures for privatization of AIC enterprises;
- lists and sample forms of required privatization documents;

- the order of their submission;
- documents comprising the legislative and methodological basis for transforming a state enterprise into an open JSC and transferring and selling of its shares;
- a summary of the theory behind AIC privatization.

Step-by-Step Guide to Privatization of Agro-Industrial Complex (AIC) Enterprises. Part II.

This Guide is intended for agro-industrial specialists of the SPF and directors of AIC enterprises to be privatized. According to the law of Ukraine “On the peculiarities of the privatization of the property in agro-industrial complex”, 51% of the state shares should be distributed among the employees of the agro-industrial suppliers. The procedures are complicated, long (12 months in duration) and different from the other share sales that are performed in the unified format. The Guide contains information that allows the reader to implement the procedures of the preferential sale and free transfer of shares to employees of agro-industrial suppliers:

- step-by-step implementation of the share sales and transfer procedures;
- lists and sample forms of required privatization documents;
- the order of their submission;
- samples of share distribution protocols.

Share Issue Registration Guide

In order to ensure the prompt and correct implementation of all privatization procedures, parties concerned should be provided with accurate information regarding regulations governing each stage of the privatization process. The Guide is dedicated to the stage at which the registration of share issues is conducted for open joint-stock companies created in the process of privatization. The Guide was compiled on the basis of the regulatory and legislative acts governing the registration of share issues. The Guide is intended for the directors, managers and legal advisors of state enterprises undergoing privatization and for officials of the State Securities and Stock Market Commission of Ukraine and the SPF. The relevant regulatory and legislative acts were changed in May, 1998 and the Guide was updated to comply with the latest requirements of the State Securities and Stock Market Commission of Ukraine and the SPF.

Step-by-Step Guide to the Competitive Types of Share Sales.

The Guide is a study and overview of the existing legislation and regulations governing the share packages sales through tenders and the Stock Exchange. The Guide is intended for the SPF officials who will supervise the commercial tenders and prepare packages for the Stock Exchange and contains the State Property Fund Regulations on Tenders and the Stock Exchange Sales as well as samples of documents processed in the preparation phase.

Step-by-Step Guide to the Preparation of the First Shareholders’ Meeting.

The main idea of the guide is to teach step by step to prepare and conduct the first shareholders’ meeting. The guide gives the detailed explanation of the authority and competence of the shareholders’ meeting as the highest governmental body of JSC, provides sample of announcement about the meeting as well as sample of proxy. It is accompanied with some slides from presentation re: principles of corporate governance, interaction of shareholders and JSC, authorities, responsibilities and rights of such governmental bodies as shareholders’ meeting, board of directors, observation board and audit commission.

Methodological Explanation re: Leasing Operations in Ukraine.

The work gives short overview of the legislation that regulate leasing operations in Ukraine, explains main definitions, different types of leasing operations, describes peculiarities of tax imposing during operations on financial leasing and rent. It also contains the information on handing over and getting back the object of leasing and information on leasing payments.

Lectors

Olga Fedonina - A certified valuation expert and accountant with thirty years of work experience, Ms. Fedonina has delivered countless lectures and seminars to directors of ex-KU elevators on valuation, preferential share sales, and share sales via tender. Prior to joining PwC, Ms. Fedonina served as Chair of the Kyiv Oblast Regional Property Fund, which has given the AIC team access to a large number of local government officials throughout Ukraine.

Dmytro Bayura – An agricultural economist with over five years experience in AIC privatization, Mr. Bayura is one of Ukraine’s leading experts in elevator privatization and AIC demonopolization, having served for 3 years as Deputy Director of the SPF’s Department for AIC Privatization. Dmytro has also worked as special advisor on privatization to the First Deputy AIC Minister.

Mikhailo Tereshenko - Mr. Tereshenko is one of Ukraine’s pioneering privatization specialists, well-versed in all legal issues regarding the privatization of Ukraine’s largest enterprises. He has worked with the Cabinet of Ministers on AIC privatization issues for over four years.

Lilya Galenternik - As legal advisor to the mass privatization project, Ms. Galenternik participated in numerous elevator privatization seminars and advised the State Property Fund on ways to accelerate AIC demonopolization and privatization.

Yulia Ivanchook - As Regional Manager for the southern region of Ukraine, Ms. Ivanchook has been at the forefront of Odesa oblast’s drive to accelerate grain elevator privatization. She designed and delivered training seminars for enterprise directors and local officials, conceived and drafted a step-by-step guide on share sales, and worked intensively with 25 ex-KU elevators.

Galina Maliborskaya - Having written her Master’s thesis on “Khlib Ukrainy, Foreign Investment and the Development of Ukraine’s Grain Market,” Galina combines academic discipline with professional expertise. She has been a key member of the elevator privatization seminar team and regularly instructs elevator directors on the stages of enterprise preparation and share sales.

Galina Medvedeva - is a PwC privatization veteran (she joined the mass privatization project in February 1995) and has managed data analysis team on the elevator privatization project. Galina is an expert on the mechanics and procedures of privatization.

Enterprise Consulting. In addition to training materials and methodological seminars, PricewaterhouseCoopers consultants provided enterprise consulting assistance directly to dozens of grain elevators in Odessa, Poltava, Kyiv and L’viv. For example, PwC assisted the Skvyrskyi Grain Processing Enterprise (“Skvira”) in Kyiv oblast from 1997 through the end of the Project with every stage of privatization (preparation of privatization plan, registration of the company, inventory, valuation, and share sales).

Skvira Background. Located just 150 kilometers from Kyiv, “Skvira” is one of the largest and most successful grain storage and processing enterprises in Ukraine. The grain storage facilities were built in 1983, and the private joint stock company was established in November 1997 when a group that had leased the enterprise from the state purchased a majority share in the company.

Principal lines of activity include:

- Buckwheat production;
- Production of buckwheat flour for babyfood and breakfast cereal;
- Procurement, storage and marketing of grains.

The company manages the following production units:

- Grain elevator for grain storage (capacity 16,000 tons);
- Elevator for buckwheat storage (capacity 56,000 tons);
- Mill for production of buckwheat flour (currently under construction);
- Laboratory and mini-mill for the production of baby food and breakfast cereal;
- Warehouses;
- Bakery;
- Shop that sells locally-produced goods;
- Subsidiary farm (the enterprise leases 800 hectares of farmland to cultivate their own grains);
- Greenhouse for the enterprise's internal needs.

Recent performance. A comparison of basic financial indicators in 1998 and 1997 shows that employees (who own almost 60% of the shares and have developed the business attitude and acumen of a private owner) of the enterprise have significantly improved enterprise performance.

For instance, in 1998, buckwheat production increased 140% over the previous year and profit doubled to UAH 2,493,100. According to the director, "Skvira" has no outstanding debts. In 1998, the enterprise processed 53,300 tons of buckwheat grain, which kept production running at full capacity. The enterprise meets operating expenses and makes regular payments to the tax administration and pension fund. In fact, this single company supplies one-third of the total payments to the raion's pension fund. Labor productivity increased in 1998 by 120% and salaries likewise increased by 110% over 1997. In 1998, the average salary was UAH 475.

The open JSC management takes care of its employee and invests in the local social infrastructure. The company recently built a new gymnasium and is now building a sauna and swimming pool. Retired employees of "Skvira" (90 people) receive their pension regularly, plus a monthly bonus of UAH 50. Employees' children regularly attend spring and summer camp in the Crimea and the Carpathians at the expense of the company.

"Skvytskyi Grain Processing Enterprise" has considerably expanded its market reach for its primary product, buckwheat. Exports increased 150% in 1998 from the previous year. The main export market is Russia, while importers in Western Europe include Germany, Belgium and Holland.

The most important problem currently facing management is concluding a long-term (5 to 10-year) contract with buckwheat producers in exchange for subsidized farm inputs (seeds, fuels and lubricants).

Skvira privatization history and status. Notwithstanding the fact that the privatization of "Skvira" was approved by the Kyiv oblast Regional Property Fund (RPF) in June 1997, the enterprise was included in Annex #3 of Resolution #1218 of the Cabinet of Ministers of Ukraine (November 5, 1997).

The founders of "Skvira" are the Kyiv oblast RPF and the lessee organization.

The company's statutory fund is 6,144,112 UAH, which includes 24,576,448 common shares with a face value of 0.25 UAH. These shares were initially distributed as follows:

- Lessee organization – 47.5%;
- State ownership – 52.5%.

On November 4, 1997, the terms of the enterprise's privatization were agreed with the Cabinet of Ministers. According to the share allocation plan (privatization plan), 13.7% of the shares were temporarily retained in state ownership; 10.7 % were offered to employees and former employees of the enterprise and 28.1% were offered to grain producers (i.e., collective farms).

In accordance with the adjusted share allocation plan approved on July 22, 1998, the current depth of privatization of the enterprise now stands at 80.5%. The state has temporarily retained a 13.7% block of shares and the director would like very much to acquire this shareholding before the state transfers it to the National Agency for the Management of State Corporate Rights (NAMSCR) or to the oblast administration.

A share package of 5.8%, unclaimed by employees and others with preferential rights, is expected to be offered at the last (48th) privatization property certificate (PPC) auction. 28.1% of the statutory fund, planned to be distributed to grain producers, was divided as follows:

- sold for PPCs – 2.8%;
- sold for compensation certificates (CCs) - 1.8%;
- transferred free of charge – 23.5 %.

Privatization therefore resulted in the creation of 8300 shareholders, while the number of enterprise employees is just 308. Enterprise employees have begun and are expected to continue the process of share concentration.

The director is not interested at this stage in sharing control with a foreign investor, although he did mention that the company is currently seeking a \$6-\$8 million line of credit to upgrade milling facilities and expand and diversify production.

Khlib Ukrainy is no longer a threat or a nuisance to the elevator and the director said that he now meets KU at an equal level. “Skvira” continues to store state grain without payment and this relationship is not expected to end anytime soon. Ironically, the most serious competitor to the elevator is the Bilotserkovskiy grain processing plant, located just 35 kilometers from “Skvira”. The Bilotserkovskiy plant, privatized by the same mechanism of lessee buy-out, has the largest buckwheat storage capacity in the country. The director of “Skvira”, however, is confident that he can compete and win on price, quality and service.

V. Website

The State Property Fund’s web site -- created, updated and maintained by PricewaterhouseCoopers with the support of USAID -- has become one of the most popular sites in Ukraine, with more than 3,000 hits per month. The site provides up-to-date information on share sales, privatization procedures, and relevant legislation and now includes a color-coded map of Ukraine that displays the location and privatization status of more than 500 grain elevators throughout the country. A wall-sized map is also now available.

The web site includes recent reports by the SPF demonstrating the Government’s progress in meeting the privatization targets established by the donor organizations. These reports are augmented for the donor community by independent data analysis provided by PricewaterhouseCoopers, which maintains a database of more than 8,000 agricultural enterprises in Ukraine, including enterprises from the grain, sugar, dairy, meat, chemical, and farm equipment sectors. International donor organizations have found our independent analyses quite useful when assessing the Government’s progress in privatization.

The website is advertised free of charge in the *Investment Gazette* and *Privatization News (Vedemosty Privatizatsii)* and continues to grow in quantity and in quality. Over the past two years, the site has attracted the interest of investment funds, Government officials, donor organizations, and private individuals from more than 25 countries around the world.

The World Bank MIGA website designers and privatization specialists overseeing the Bank’s own efforts in the development of similar tools evaluated the website recently and classified it as one of the best in the world in privatization.

To ensure continuous accessibility of the site after the end of the Project and to minimize the inconveniences for users in connection with the change of the site address, we reached agreement with the State Property Fund on the following plan of action to transfer the website entirely to the SPF (from the address www.ukrmassp.kiev.ua to the address spfu.kiev.ua of the SPF server).

Date	Task	Responsible
05/24/99-06/11/99	Create a «mirror image» copy of the web-site on the SPF server at the new URL address (http://spfu.kiev.ua)	PwC
06/11/99-06/25/99	Maintain both copies of the site.	PwC
06/11/99	Inform the old URL users about the upcoming closure of the site they have been using.	PwC
06/14/99-06/30/99	Appoint persons who will be responsible for further maintenance (informational and technical) of the site. Organize training for SPF specialists for two weeks.	SPF
06/16/99	Publish information about the address change and place new advertisements in Vidomosti Pryvatyzatsii and in Investment Newspaper (Internet http://spfu.kiev.ua)	SPF, PwC
06/11/99-06/25/99	Register new address in browsing systems and on servers registering visitors of the site.	PwC
06/11/99-06/25/99	Coordinate activities related to the change of the site address and to the changes of the World Bank site links addresses (www.privatizationlink.com)	PwC
06/24/99-06/30/99	Transfer all documentation, correspondence, software and publications related to creation and operation of the site. Sign Acceptance and Transfer Act.	SPF, PwC
06/30/99	1) End of AAMP. 2) Expiration of agreement with Ukraine online provider. The old address shall contain a brief notice on the transfer of the site and its new address. 3) Discontinue placing information on privatization at the address http://www.ukrmassp.kiev.ua , the information to be placed exclusively on the SPF server at the address http://spfu.kiev.ua	SPF assisted by PwC

The following article appeared in the April edition of the **World Bank's "Transition Newsletter"** and highlights the huge increase in users accessing the USAID-funded, PwC-run, State Property Fund "Ukraine Privatization and Investment" website.

“A privatization agency official in Tajikistan completes a document on the upcoming tender for the Tajik cotton ginneries slated for divestiture. Moments later he posts the document on the Internet, where it is instantly accessible to potential investors all over the world. Supplemental information, including company descriptions, background information on the Tajik privatization program, analytical reports on progress to date, and relevant legal information, is also available on the agency’s Web site.

“This outpouring of information from a region in which access to information was once extremely limited is remarkable. Even more remarkable is the fact that the Internet is being used in transition economies not only by universities and non-governmental organizations—elements of an emerging civil society that might be expected to embrace information technology—but also by the government.

“State privatization agencies—which benefit from technical assistance from multi- and bilateral donor organizations and are generally better equipped and staffed with younger, more dynamic personnel than other government bodies—are especially keen on the Internet. In fact, privatization agencies in 23 of the 27 countries in the region report upcoming privatization transactions on-line.

“These agencies have discovered that the Internet allows them to reach potential investors who would otherwise not have known about their planned divestures. Marketing via the Internet is much less

expensive than marketing through traditional channels, such as advertising in the Financial Times or the Economist and mailing out expensive materials. Disclosing detailed information at every stage of the privatization process via the Internet also helps make the privatization program more transparent. In addition, using the Internet helps familiarize privatization agencies with modern information technology and modern marketing techniques.

“What Is PrivatizationLink?”

“Launched last June, PrivatizationLink (www.privatizationlink.com) is a joint initiative between the Multilateral Investment Guarantee Agency (MIGA) and the Private Sector Development Units of the Regions in the World Bank. The project’s initiators recognized that many privatization programs in transition economies and developing countries were unable to attract sufficient numbers of qualified bidders because resource constraints forced the agencies to cut back on their marketing efforts. As a result, many potential foreign investors were unaware of their offerings.

“PrivatizationLink was designed to fill this information gap by providing investors around the world easy access to information about planned divestitures of state-owned enterprises. The project’s Web site features company profiles of enterprises slated for divestiture, including information on each enterprise’s ownership structure, workforce, and fixed assets. In addition, the site describes the divestiture plan, indicates the closing date for bids, and provides recent financial data that help investors assess the firm’s current and potential market position. Background information on national privatization programs is also provided.

“The Business Directory contains useful contact information for key players in privatization, including privatization agency personnel, bankers, and advisors. The Virtual Library includes texts of privatization laws, data on transactions and revenues, links to other Web sites, bibliographical references, and the full texts of privatization studies. News & Events describes recent and upcoming privatization transactions.

“The site is designed to provide potential investors with everything they need to know about privatizations in some 50 countries.

“Data from Web sites maintained by national privatization agencies can be accessed and searched from the privatization site. In addition, World Bank data on countries that do not have their own Web sites are accessible.

“Birgit Braunwieser is PrivatizationLink content coordinator for MIGA. She can be reached at 202-473-3075 (telephone) or 202-522-2650 (fax).

“Who Is Using Ukraine’s Privatization Website?”

“Are people really making use of the information available on-line? Who is using these Web sites?

“Data on usage of the Ukrainian State Property Fund’s Web site shows considerable activity. Traffic on the site rose by more than 200 percent over the past three months, with about half of all users coming from abroad (20 percent from the United States, 8 percent from Germany, 8 percent from the United Kingdom, 3 percent from Austria, and 3 percent from the Russian Federation).

“The Web site (<http://www.ukrmassp.kiev.ua>) was set up as part of a USAID-financed project to make the Ukrainian government more transparent and service oriented. The site provides investors with information on Ukraine’s privatization program and upcoming tenders.

“All information on bid requirements is provided on-line, saving the Fund the cost of printing and mailing materials to potential investors. Requests for additional information can be sent directly by e-mail to the appropriate staff member at the State Property Fund. (Bids must still be submitted to the Fund by sealed envelope.)

“By making more information about state-owned enterprises available, the site is helping to build the trust of potential investors. Attracting more interest will eventually attract more bidders, which will increase the prices at which state firms are sold.”

Continuing an upward trend, the number of financial intermediaries and investment funds visiting the web site has increased steadily from March through June. The website is visited on a daily basis by brokers from Sokrat Investment Company, Privatbank, and Alfa Capital. As trading in grain elevator shares became more active, the web site has received a large number of inquiries from investors interested in learning more about the storage and production capacities of elevators, their physical condition, transportation and loading facilities, and location. We respond to questions as best we can, but we also collect and send all inquiries and requests directly to the State Property Fund for follow-up.

VI. Data and Analysis

The Privatization Data Analysis Team (PDAT) developed a series of integrated databases that enable users to assess and verify information obtained from the official SPF database on enterprise preparation and sales.

The majority of Project data was created and processed in cooperation with experts of the SPF Information Department during implementation of the Mass Privatization Project in 1995-1998. Some new databases were set up for the purposes of monitoring the privatization pace of the grain elevators and AIC monopolists.

GENERAL DATABASES CREATED DURING THE MASS PRIVATIZATION OF MEDIUM AND LARGE ENTERPRISES

1. Main database of the results of the privatization auctions conducted via the Auction Center Network (hereinafter – the ACN) – (*Ukraine. MBD*).

Scope of application:

- provide current reports and quality analysis on the results of privatization auctions (both certificate and cash auctions);
- enable an average user to obtain general statistics on the dynamics of certificate distribution and on the results of privatization auctions held by the ACN with breakdown by oblast, time and type of enterprises;
- enable analysis of various types of sale; monitor general trends of the sale of state-owned share packages via the ACN to prepare proposals on methods of improvement and acceleration of privatization process.
- verify data and provide results for the purpose of correcting information stored in the SPF ETAP and ETAP-AUCTION databases;
- maintain analytical section of the SPF Ukraine’s Privatization and Investments web-site to guarantee that the public has access to information on the status of privatization of enterprises offered for sale via auctions.

Data accumulated and stored by the PDAT within UKRAINE.MDB

- The monthly reports by the State Savings Bank and Oranta National Insurance Company on the number of privatization certificates (PPCs and CCs) collected by the citizens of Ukraine (by regions);

- SPF and UCCA information on the results of the sale of enterprises share packages via the PPC, CC and mass cash auctions;
- SPF and UCCA information on the number of bids, certificates and cash received from legal entities and individuals as the result of the privatization auctions conduct;
- Calculations made by the PDAT, enabling to make more comprehensive analysis of the auctions results;
- Profiles of more than 7,000 enterprises that took part in the auctions (name, address, industry, group);
- Performance indicators of enterprises published in the press;
- Generalized share allocation plans of the auction participants;
- Average privatization depth indicators of enterprises that participated in the auctions.

2. Main DataBase of Enterprises Slated for Participation in the Mass Privatization Programs of 1992-1998 (*PLAN.MDB*).

Scope of application:

- store, update and verify the General List of 11,200 large and medium enterprises subject to privatization in 1995-1999 per the SPF targets;
- monitor the processes of enterprise privatization by regions and state management bodies;
- analyze the fulfillment of 1995-1998 Privatization Programs by regions and types of sales;
- consolidate data and analyze the reasons of delays in privatization processes;
- verify any lists of enterprises, to make specific inquiries and identify enterprises;
- verify and provide data for correction of information stored in the SPF ETAP database and the information publicized by the SPF;
- maintain analytical section of the SPF Ukraine's Privatization and Investments Web-site.

3. Auxiliary Databases on Enterprises Prohibited from Privatization (*NEGATIVE.MDB*) And Those of Strategic Importance for Ukraine's Economy (*ATTRACT.MDB*)

Scope of application: store, verify and update the lists of enterprises that are officially:

- prohibited from privatization by the Verkhovna Rada Resolutions (a total of 5,160 enterprises);
- recognized as those having strategic importance for Ukraine's economy and security (a total of 1,156 enterprises);
- pronounced by the directives of Antimonopoly Committee as monopolists in the national commodities and services market (a total of 389 enterprises);
- enable to analyze the respective lists;
- prepare proposals regarding withdrawal of certain enterprises from the negative lists and their subsequent privatization;
- analyze the modifications of the negative lists per the decisions by the Cabinet of Ministers, the SPF and other agencies;
- enable to analyze progress in the domain of strategic enterprises and monopolists privatization;
- enable to verify any enterprises lists; file inquiries; identify enterprises;
- verify and provide data for corrections in ETAP data and in the information publicized by the SPF;
- maintain analytical section of the SPF Ukraine's Privatization and Investments Web-site to guarantee the public, interested persons and the potential investors have access to maximum amount of information on the status of privatization of strategic enterprises.

ADDITIONAL DATABASES CREATED DURING THE AGROMONOPOLIES PRIVATIZATION PROJECT

1. Main database on the AIC enterprises privatization (*APK.MDB*)

Scope of application

- analyze and make forecasts regarding the development of privatization processes in the universe of 8.6 thousand AIC enterprises; identify the reasons of the delays of these enterprises preparation processes;
- verify and provide data regarding corrections in the ETAP database and in the information publicized by the SPF;
- maintain analytical section of the SPF Ukraine's Privatization and Investments Web-site.

2. GMAD Universe Database (*KHLIB.MDB*)

Scope of application

- store and verify the general list of 1,018 GMAD (grain marketing and distribution) enterprises, (including 543 grain procurement and storage enterprises); 442 of the above 1,018 are subject to mandatory privatization under the Cabinet of Ministers' Resolution #1218 dated November 5, 1997 and amended by the Resolution #1498 dated September 22, 1998;
- monitor the dynamics of privatization processes in the universe of grain procurement and storage enterprises by regions;
- identify the reasons of the delays of these enterprises preparation processes;
- verify and provide data regarding corrections in the ETAP data and in the information publicized by the SPF;
- maintain the analytical section of the SPF Ukraine's Privatization and Investments Web-site to guarantee interested persons and potential investors have access to maximum amount of information on the status of privatization of the above mentioned 442 enterprises.

3. Databases of enterprises within monopolistic agro-industrial associations named UKRAHROKHIM (*AHROKHIM.MDB*) and UKRAHROTEKHSERVICE (*AHROTEKH.MDB*)

Scope of application

- store and verify the general list of 603 agricultural chemistry and 967 agricultural machinery enterprises;
- monitor the dynamics of privatization processes in the universe of enterprises in question by regions and methods of privatization;
- identify and analyze the reasons of the delays of these enterprises privatization;
- verify and provide data regarding corrections in the ETAP data and in the information publicized by the SPF;

4. Auxiliary Database, an automated workstation enabling to obtain and process enterprise data (*GENERAL.MDB*)

Scope of application:

- automatic search of enterprises per the prescribed by the user parameters, processing of information available in the ETAP system;
- assessment of these enterprises' privatization status in light of regions and methods of privatization;
- verification and provision of the information for corrections in the ETAP database.

DATABASES - SOFTWARE, TECHNICAL IMPLEMENTATION AND MAINTENANCE

Since all the databases use data stored in the official information system of the SPF they have been implemented as programs operating in Access 2.0 for Windows 95. **UKRAINE.MDB** database, whose data are protected from incidental modification, is designed for utilization by a wide audience. The data stored in other bases are not protected from incidental change, i.e. they are for internal use only, however any data thereof may be provided to all the interested parties. Only programmers may introduce changes into the data upon the request from the PDAT analysts. Currently the operation and accumulation of data in all the databases are done by programmers and PDAT analysts.

UKRAINE.MDB

The system has been installed on the server in the AMPP office and in the SPF Certificate Privatization Department. The data are protected from deliberate or incidental changes:

- **DATA00. MDB** subsystem - contains the data on enterprises that applied for participation in PPC, CC or cash auctions (the data is obtained twice a week from ETAP in electronic format);
- **AUC_UCCA. MDB** subsystem – the data on the auctions results (provided by the UCCA in electronic format once the SPF Order on approval of the respective auction has been issued), utilized as a reference copy;
- **AUCTIONS. MDB** subsystem – contains consolidated data on the number of the bids collected and on the approved by the SPF results of PPC auctions (the data are obtained from **DATA00. MDB** before the respective auction starts and from **AUC_UCCA. MDB** after the auction results are approved); during their import the data are verified and discrepancies are identified; the system provides also for calculation of additional indicators; may serve as a source of information for other databases;
- **COMPENS. MDB CASHSALE. MDB** subsystems – contain consolidated data on the bids collected and on the approved results of the respectively CC and mass cash auctions; the format of the data is akin to that of the **AUCTION. MDB** database;
- **DIS_COL. MDB** subsystem – contains data on the number of the privatization certificates collected by individuals (the data are obtained in paper format on a monthly basis from Savings Bank and Oranta Insurance Company; the data are entered into the system manually; the system enables to verify the data. Note: distribution of privatization certificates has been terminated effective July, 1998);

- **COLLECT.MDB** subsystem – contains data on the number of the privatization certificates, collected by the regional Auction Centers (data are obtained from the UCCA in electronic format after the approval of respective auctions results; CC auctions have been terminated effective October 1998, PPC auctions have been terminated effective May 1999);
- **WINNED.MDB** subsystem – contains data on the number of the winning certificates, accepted as payment (CC auctions have been terminated effective October 1998, PPC auctions have been terminated effective May 1999);
- **AUC_SOLD.MDB** subsystem – contains consolidated data on the supply and sales of shares in 7,100 enterprises via all types of auctions;
- **CODES.MDB** subsystem – represents a reference book of 74 tables containing unified statistical codes used to process data available in all databases (the tables with standard codes of State Committee on Statistics of Ukraine were received from the SPF IT Department, other tables have been designed by the PDAT for internal use);
- **CODES_TE.MDB** subsystem - represents a reference book of 9 tables containing unified statistical codes of Ukrainian territories (oblasts, raions, cities) used to process data available in all databases (the table with standard “ ” codes of State Committee on Statistics of Ukraine was provided by the SPF IT Department, other tables have been designed by the PDAT for internal use).

Other databases

In view of unavailability of the clear-cut requirements to formats of analyses and reporting, the data are stored in tables; if necessary, the data are processed in accordance with individual requests. The full transparency of the data within the databases does not make it possible for the data to be used by an unprepared user. The necessity to amend and verify the data on a regular basis necessitates regular processing of the data by persons responsible for development and maintenance of the databases.

Privatization Data and Analysis, SPF Data, 6/23/99

WORLD BANK: GRAIN MARKETING AND DISTRIBUTION UNIVERSE

Total Number:	583
Subject to Privatization:	506
Begun Share Sales:	470
Sold At Least 70%:	366
Sold 100%:	65

IMF AND GORE-KUCHMA: THE EX-KHLIB UKRAINY UNIVERSE

Total Number:	543
Subject to Privatization:	442
Approved Privatization Plans:	436
Begun Share Sales:	436
Sold At Least 70%:	351
Sold 100%:	42

ELEVATOR SHARES SOLD FOR CASH VIA COMMERCIAL TENDERS

Share packages offered for sale:	55
Share packages sold:	7
Average asking price for one share:	UAH 0.323
Nominal price for one share:	UAH 0.25

ELEVATOR SHARES SOLD FOR CASH VIA STOCK EXCHANGE

Enterprises offered for sale:	179
Entire share packages sold:	107
Partial share packages sold:	136

Average asking price for one share:	UAH 0.176
Nominal price for one share:	UAH 0.181

ELEVATOR SHARES SOLD FOR CASH VIA CASH AUCTIONS

Share packages offered for sale:	304
Enterprises in cash auction:	200

PRIVATIZATION STATUS OF UKRAGROKHIM

Enterprises subject to privatization:	521
Begun share sales:	476
Sold at least 70%:	432
Sold 100%:	289

PRIVATIZATION STATUS OF UKRAGROTECHSERVICE

(Compiled from MinStat, Min AIC, PwC and SPF data)

Enterprises subject to privatization:	951
Begun share sales:	808
Sold at least 70%:	751
Sold 100%:	600

These statistics are taken directly from the State Property Fund's (SPF) official database ("ETAP") and do not reflect the professional opinion of PricewaterhouseCoopers. Experience shows that regional verification of SPF data is essential to ensure accurate reporting.

VII. Critical "Post-Project" Activities

With the support of USAID and under the management of CNFA and RONCO, many of the activities described below will be continued during the period from July 1999 – March 2000.

1. Full Privatization of the Grain Elevators and Assistance to Private Agribusinesses

- Assist grain elevators with privatization procedures and Regional Property Funds in L'viv, Odessa and Poltava with development of share sales strategies to achieve the **full privatization** of all eligible grain elevators in these three oblasts particularly. This is a key recommendation in the Memorandum of Understanding signed by Mykola Hladiy and Greg Huger in May 1999.
- Help private agricultural businesses prepare information and financial data for investors and help the State Property Fund (SPF) to identify investors and plan the sale.
- Complete a financial analysis of the enterprise, including review of accounting methods and procedures.
- Assist with the technical issues of leasing land from neighboring private farms, leasing equipment and/or space to the farms, and delivering inputs to the farms.

2. Privatization of Khib Ukrainy. The leadership of KU will need help to:

- Rewrite the company's charter, particularly those sections that regulate ownership relations in the company, the powers of management bodies, and the distribution of management functions. One aim is to prevent KU from being the state agent for farm inputs (e.g., seeds, fertilizers, herbicides, fuel) distribution and payments.
- Register as a private, joint stock company. While there is a Cabinet of Ministers Resolution authorizing such a change in status, KU has yet to follow through on it.
- Restructure the oblast-level KU administrations and enterprises.

3. Monitor the GOU's Progress in Privatization. To ensure that IMF and Gore-Kuchma conditions are met, it is necessary to:

- Monitor the privatization status of former KU enterprises listed in Cabinet of Ministers' Resolution #1218 and other AIC monopolies and holding companies.
- Maintain the "AIC State Monopolies" database to monitor and distribute reports on the status of privatization of agricultural companies to the GOU and the international donor community.

4. Post-Restructuring Ownership Issues.

- Conduct seminars and advise enterprises in L'viv, Odessa and Poltava on land leasing, agribusiness management and shareholder rights. The target audience would include restructured farms, private agribusinesses, private farmers, and grain elevators. The aim would be to help private farmers consolidate enterprise ownership, manage their businesses, and exercise their shareholder rights.

VIII. Annexes

1. Cabinet of Ministers Resolution #1218 (November 5, 1998)
2. List of 543 grain elevators included in Resolution #1218 and their privatization status
3. Chart showing the breakdown of 1018 enterprises in the "bread product system"
4. Share allocation plan of a typical grain elevator
5. Oblast maps of L'viv, Odessa and Poltava
6. Selected elevator profiles
7. Excerpts from Ludwig Striewe, "Grain and Oilseed Marketing in Ukraine" (September 1998)
8. Manuals, reports, and analyses produced by the project
9. List of all seminars and seminar participants
10. Significant newspaper articles published by/about the project



USAID Ukraine Agro-Monopolies Privatization Project
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CC: James Watson
Marcus Winter
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Charlie Uphaus
Christian Foster

FROM: Kevin Covert

June 26, 1999

RE: *Ukraine Agro-Monopolies Privatization Project*
Task Order No. OUT-EPE-I-804-95-00079-00
June 1999 Progress Report

I. Project Management Issues

- On June 24, USAID COTR met with project staff to review task order deliverables, equipment transfer, personnel issues, the project's final report and a presentation on grain elevator privatization to the donor community. With USAID permission, seven computers purchased under the 4-year Mass Privatization Project and the Agro-Monopolies Privatization Project will be transferred to two USAID contractors, RONCO and CNFA, when project staff begin work on those agricultural development projects.
- COTR also confirmed that all remaining funds (\$207,000) had been obligated by the Mission. Financial projections show that the project will spend 98% of the total obligated amount as of June 30, 1999.
- On June 25, project specialists delivered a presentation on grain elevator privatization to the donor community at the State Property Fund (SPF). Representatives from both the SPF and the World Bank thanked the project's consultants for their assistance in facilitating elevator privatization and in providing methodological, information, and consulting support to agricultural enterprises and the Government of Ukraine.
- Although the SPF will not meet the targets established by the International Monetary Fund's (IMF) Extended Fund Facility – 442 elevators privatized to 70% by June 30, 1999 – the Government of Ukraine has made considerable progress in privatizing grain storage and processing enterprises over the past eighteen months, particularly regarding sales via stock exchange. Nevertheless, several factors continue to retard the development of the grain market, such as the fact that the Government still retains a shareholding of 25%+1 in more than 300 grain elevators.
- The World Bank and the State Property Fund have selected PricewaterhouseCoopers to provide methodological and information assistance to the SPF for one year, beginning o/a July 1, 1999. This award comes at a particularly opportune time, as it will ensure uninterrupted support of the website following the end of the Agro-Monopolies Privatization Project.

II. Key Events

- On June 17, Ukrainian Prime Minister Valeriy Pustovoitenko dismissed Hryhoriy Omelianenko from his post as Board Chairman of the state-run joint stock company Khlib Ukrayiny. Earlier President Kuchma had ordered the Government to fire Mr. Omelianenko for serious drawbacks in his work, namely in the process of privatization, his relations with manufacturers, failure to repay state loans, etc. According to Kuchma, the moves by Khlib Ukrayiny to decrease the grain, flour and groats supply led to increases in prices for these products, as well as for macaroni foods and bread products. The President has tasked law-enforcement organs to look into Khlib Ukrayiny's operations and to prosecute officials if legal violations will be found. (Source: Infobank).
- Grain elevators continued to be the most popular securities on the stock exchange. In addition to the 81 share packages in grain elevators sold from March-May, the SPF offered another 79 share packages in June. On June 22, for example, the SPF raised Hr 215,976 when it sold shares in the "Nova Kakhovka" bread plant in Kherson oblast at nominal value. The SPF raised another Hr 122,050 on June 22, when it sold 488,200 shares in the Berdychiv bread plant in Zhytomyr oblast.
- The sale of shares in grain elevators via special cash auctions (i.e., the former certificate auction network) has also increased steadily over the past four months. In June, for example, 304 share packages were offered for sale via cash auction, a significant increase over the 181 share packages offered in March.

- On June 22, the President signed a Decree “On Mortgaging Real Estate,” that permits real estate and urban land to be used as collateral in obtaining credit. The Decree authorizes only land subject to privatization to be used as collateral – which would exclude farm land. Nevertheless, this is a landmark Decree and is certain to facilitate the development of a more flexible credit and mortgage system.
- Private investors in Ukrainian agriculture were distressed to discover this month that representatives of local government authorities in various regions of Ukraine are stating that they have the obligation this year, as in earlier years, to ensure debts of agricultural producers are repaid by imposing a levy on crops for government needs, including the repayment of debts to the Pension Fund. Procedures are likely to be similar to those employed in past years when government authorities and government-controlled enterprises maintained a privileged position in terms of repayments from agricultural producers. The negative experience of the previous three years has caused major farm inputs suppliers such as Monsanto to curtail operations. Unfortunately, it appears as if the practice of paying debts to the State before those to private suppliers will not be changed this year.
- On June 17, project specialists attended a meeting chaired by parliamentary deputy Roman Schmidt and the Secretariat of the Presidential Commission for Agrarian Policy to discuss international investment programs and performance of technical assistance projects in Ukraine.

USAID Regional Agricultural Development

The majority of PricewaterhouseCoopers’ agriculture privatization consultants will be fully employed and fully engaged in assisting USAID achieve the objectives of its regional agricultural development strategy during the “bridge period” from July 1999 – March 2000. CNFA will employ three PwC senior consultants and one database expert to monitor progress in meeting the IMF’s elevator privatization goals, consult specific elevators in the three target oblasts, and assist Khlib Ukrainy with its plans to corporatize and privatize. RONCO will employ another three consultants in each of the three target oblasts to provide post-restructuring assistance to help large farms and other agricultural enterprises sort out the myriad property ownership and registration issues that arise following privatization.

Close Out Tasks

<i>Action</i>	<i>Status</i>
Find employment for all AMPP staff	15 of 17 consultants placed as of 6/25/99
Collect hard copies of all financial documents (expense reports, invoices, receipts, correspondence with client and home office, etc.) and ship to PwC/Arlington for archiving.	Will be shipped and stored at the end of the calendar year with financial documents from other PwC USAID projects
Ship hard copies of all training manuals, guides, analyses, reports, significant correspondence to PwC/Arlington for archiving.	
Store and archive soft copies of all of training manuals, guides, analyses, and reports.	
Prepare and send AMPP final report to USAID, SPF and donor community	Final report in draft. Will be completed and delivered by June 30
Complete inventory of all equipment and prepare memorandum for USAID on recommendations for future use/distribution of equipment.	
Prepare report for USAID on AMPP seminars and training activities (# seminars, # participants, # enterprises, # oblasts, types of questions addressed, etc).	
Back-up on CD-ROM the most important and useful of the privatization databases culled from ETAP/SPF.	Done

<i>Action</i>	<i>Status</i>
Ensure that we have a back-up on CD-ROM of everything that is on the website. Ensure ability of the State Property Fund to maintain website without PwC specialists.	Done
Deliver a brief presentation to USAID, the SPF, KU and the AMC on major results, findings and recommendations in agro-industrial privatization during the past year.	Done
Transfer all USAID-financed software to the UCMID project (e.g., translation program, Website-related software).	Done
Verify that all required Task Order deliverables have been completed.	Done
Prepare and submit final bill for payment to USAID/Kiev	Will be done no later than three months after project closing date

Strategic and Policy Consulting

Khlib Ukrainy (KU): On June 11, PwC privatization consultants delivered a legal analysis and recommendations to KU on the procedures and regulations concerning establishing international joint ventures on the basis of State-owned property. On June 1, PwC delivered an analysis of bankruptcy, debt restructuring and financial review (“ i ”) as these pertain to Khlib Ukrainy. This document also contained recommendations on ways to assess and allocate the debt associated with the elevators, an issue that is likely to emerge during the eventual privatization of Khlib Ukrainy.

Ministry of the Agro-Industrial Complex (MAIC): At the request of First Deputy Minister Luzan, PricewaterhouseCoopers helped the MAIC draft a new strategy for agricultural reform. In particular, we advised the MAIC on privatization strategy and ways to attract foreign investment to the agro-industrial complex.

AIC Training and Technical Assistance

For the first time in two years, no privatization seminars were held for a full month. The training team had maintained a hectic pace of two seminars per month during the past 24 months – but during the month of June focused on project close-out issues. Nevertheless, privatization specialist Yulia Ivanchook traveled with several USAID representatives to Odessa on June 21-22 to accompany them on a site visit to Belgorod-Dnistrovsky grain elevator and a large vegetable oil processing plant. USAID is considering funding grain elevator privatization activities in Moldova.

The Ukraine Privatization and Investment Web Site (www.ukrmassp.kiev.ua)

The website team began to implement an agreement with the State Property Fund on a plan of action to transfer the website entirely to the SPF (from the address www.ukrmassp.kiev.ua to the address spfu.kiev.ua of the SPF server). The schedule has been developed to guarantee continuous accessibility of the site during the transfer phase and to minimize inconvenience for users in connection with the change of the site address.

On June 11, the website team met with a representative from the World Bank’s “Privatizationlink,” an electronic network of privatization projects throughout the world. We discussed expanding the SPF privatization website to include an overview of the key economic indicators in Ukraine, an analysis of the investment climate, and profiles of specific strategic enterprises offered for sale via tender.

With the assistance of the Center for Privatization and Economic Reform in Agriculture, PricewaterhouseCoopers created, updated and published on the Internet a series of color-coded maps showing the privatization status of Ukraine’s 543 grain elevators. We also prepared a wall-sized map of Ukraine’s grain elevators that was displayed by the SPF on June 17 at a conference to promote the development of Ukrainian capital markets.

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